2020 NOMINEES

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Small and Medium-Sized Firms in Crisis: A Message from the Real Economy

By JOSEPH BRUSUELAS

The condition of small and medium-size firms implies a potential inflection point in the nascent economic rebound following the near shutdown of the economy last spring. Without further reform and support of the signature Paycheck Protection Program—which provided a vital lifeline to those firms during the worst of the pandemic—there will be an increase in bankruptcies, followed by another round of job losses, this time tilted toward the permanent elimination of jobs that support the bulk of the American middle and working classes.

With many of these businesses still struggling to survive, almost all of the PPP loans made to small and midsize firms will have to be forgiven to prevent a much larger round of permanent job losses. Since the onset of the crisis, we have made the case that roughly one quarter of the jobs lost during the initial part of the pandemic would be permanent. Recent data surveying small and midsize market firms indicates that forecast may be somewhat optimistic. Moreover, the risk tolerance of the U.S. Treasury is going to have to increase in order for businesses to better utilize not only a replenished PPP, but also the $600 billion sitting on account at an understaffed Main Street Lending Program.

**Organization received loan proceeds for PPP**

<table>
<thead>
<tr>
<th>Category</th>
<th>Total n=212</th>
<th>&lt;$5M - &lt;SS$5M n=106</th>
<th>SS$5M - $1B n=101</th>
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</thead>
<tbody>
<tr>
<td>Yes</td>
<td>91%</td>
<td>93%</td>
<td>90%</td>
</tr>
<tr>
<td>No</td>
<td>3%</td>
<td>3%</td>
<td>5%</td>
</tr>
<tr>
<td>Don’t know/not sure</td>
<td>6%</td>
<td>10%</td>
<td></td>
</tr>
</tbody>
</table>

**Confidence that organization will be successful in achieving forgiveness for PPP loan**

<table>
<thead>
<tr>
<th>Category</th>
<th>Total n=193</th>
<th>&lt;$10M - &lt;SS$1M n=97</th>
<th>SS$1M - $1B n=96</th>
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</thead>
<tbody>
<tr>
<td>Very confident</td>
<td>68%</td>
<td>72%</td>
<td>64%</td>
</tr>
<tr>
<td>Somewhat confident</td>
<td>22%</td>
<td>16%</td>
<td>29%</td>
</tr>
<tr>
<td>Somewhat uncertain</td>
<td>8%</td>
<td>9%</td>
<td>4%</td>
</tr>
<tr>
<td>Not at all confident</td>
<td>2%</td>
<td>4%</td>
<td>1%</td>
</tr>
</tbody>
</table>

**FURTHER AID NEEDED**

Much of the focus around the current policy impasse around a potential fifth round of fiscal aid has been on the status of the unemployed and the roughly $15 billion per week they stopped receiving on July 31. That is understandable, given the 28 million individuals on some form of unemployment insurance through mid-August, the millions more who have exhausted their state and pandemic emergency assistance, and the median duration of unemployment standing at 15 weeks. Yet the condition of the small and midsize market firms that comprise the majority of the real economy is such that they will almost certainly need further aid and significant policy liberalization of the PPP and MSPL going forward.

Recent data culled from our proprietary RSM US Middle Market Business Index and the National Federation of Independent Business point to an increase in bankruptcies and unemployment later this year that will cause the aforementioned labor market dynamics to shift in a negative fashion and feature permanent job losses. Roughly 91% of respondents in the July MMBI survey indicated that they had facing an existential crisis and 32% of midsize firms expecting the initial round of PPP loans will not be forgiven, economic conditions inside the real economy are not improving to the point where the overall economy will be able to generate enough momentum to achieve escape velocity from recessionary gravity, absent further aid from the federal government.

**MIDDLE MARKET INSIGHT:** With many of these businesses still struggling to survive, almost all of the PPP loans made to small and midsize firms will have to be forgiven to prevent a much larger round of permanent job losses.

Joe Bruusuelas is chief economist at RSM US LLP, a leading authority on the middle market. He has more than 20 years’ experience analyzing U.S. monetary policy, labor markets, fiscal policy, international finance, economic indicators and the condition of the U.S. consumer.

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Leadership Lessons to Learn from a Crisis

Presented by BRANDON FERRERA

A s companies and their leaders battle their way through these uncertain times, there are valuable lessons that can strengthen management teams going forward. It’s not a matter of forgetting everything you ever knew about leadership, but rather a task of melding management styles that built a successful business.

NETWORKS PROVE THEIR VALUE

Leaders have long found significant value in peer membership organizations such as the Business Roundtable, as well as executive groups in trade associations such as the Food Industry Association and the National Retail Federation. Along with C-suite networking, each offers extensive and industry-specific online resources and guidance for crisis management and strategy.

The Wall Street Journal reports that in the COVID era, many CEOs are also reprogramming their personal networks. They are leveraging those connections for everything from sharing workplace safety practices to discussions on how to manage the impact of working from home.

LOOKING BACK TO MOVE FORWARD

Today’s leaders have a long list of role models for managing through a crisis. Many in today’s C-suite say they lean on learnings from both history and military experience. In the military, success on the battlefield depends both on mission command as well as the intention behind an order, which is just as important as the order itself. This demands flexible structures and trust in leaders. Feigen Advisors, consultants to CEOs, point to lessons in leading through crisis, as modeled by history’s military leaders:

• Be decisive—don’t dwell on losses, but instead jump and move on from a position of strength.
• Be in the trenches—great leaders light side by side with their soldiers.
• Be agile—slow-moving bureaucracy can stymie necessary actions.
• Be confident—great leaders understand that confidence, buttressed by optimism, leads to victory.
• Be aware of success—reward successful team members and expand their responsibilities.
• Be an example of work/life balance—ensure that you and your team take time to rest and recuperate the strengths all will need.

THE TOOLS OF LEADERSHIP DURING CRISIS

University of Colorado Leeds School of Business professor Stephanie K. Johnson, writing in the Harvard Business Review, framed advice for leaders as they look to support their team members in meaningful ways. Effective measures fall into three categories: taking some of the same hits as your staff, giving a larger purpose in mind; and being aggressively transparent even when it's hard.

Scholars at the University of Chicago Booth School of Business also point to some straightforward guidance and perspectives leaders can use as they help their organizations weather difficult times. Their advice includes:

• Building trust through transparency: It is your audience who will determine what information is considered relevant. Relevancy will also vary by audience. What transparency means to an investor may not be the same for a customer.

• Demonstrating commitment: Leaders who show up in a highly visible manner and take change to demonstrate accountability. They also send the message that nothing is more important than resolving a particular crisis.

• Balancing expertise with a sense of duty and community orientation: The U.S. public usually trusts corporate ability, but often doubts corporate willingness to do the right thing. Companies often get scant credit for exceeding expectations but are heavily criticized if they fail to meet them.

• Showing empathy: Strong leaders show empathy with colleagues at work, neighbors, and family members even if they don’t feel responsible for a problem. During crises, stakeholders do not see the company as an anonymous provider of goods or services, but as a member of the community, with an expectation that they will care and show empathy.

GOOD COMMUNICATION PAYS

Leading teams who are working from a distance may require some changes to communication channels and styles in order to keep employees focused and energized. Many companies are now substituting face-to-face morning or end-of-day “huddles” with online video conferencing. The technique is proving itself effective as a method for ensuring team members are staying on-task, as well as keeping the corporate culture alive and well.

For teams working remotely, this becomes particularly important. Effective communication is built on recognizing that team members are experiencing everything from generalized fear to specific anxiety over what it takes to juggle work and home—all from the same kitchen table.

In the military, success on the battlefield depends both on mission command as well as the intention behind an order, which is just as important as the order itself.

BOTTOM LINE: TAKING CARE OF THE TEAM—AND YOURSELF

As neuroscientist and leadership strategy coach Vita Skreb advises, “taking the time to acknowledge and courageously name what you are really experiencing makes you feel better.”

Leaders can model this mindset with their teams and create space to name what is difficult before focusing on business or organizational solutions. Once crisis-generated hurdles are recognized, Skreb also tells leaders to “partner up” with team members to use crisis learnings as tools for identifying positive changes that can be made across the organization.

READY FOR THE NEXT

There is little doubt that the business environment in virtually every sector will look different as crises wane. New measures of effectiveness will be tested and incorporated. Workplaces and styles will be reshaped. Customer and public expectations will be recalibrated. All these shifts make it increasingly important to ensure that learnings are not lost. They cannot only help support survival but can fuel engines of success and energize rebuilding going forward.

Brandon Ferrera serves as Southern California market executive for Fifth Third Bank. Bringing more than a decade of executive-level experience in relationship banking to his role, Ferrera’s teams focus on developing and maintaining relationships with both privately-owned and private-equity-owned middle-market clients; supporting their growth with financing for leveraged buyouts, acquisitions, working capital and growth capital. Fifth Third Bancorp is the indirect parent company of Fifth Third Bank, National Association, a federally chartered institution. As of June 30, 2020, Fifth Third had $203 billion in assets.

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Now Is the Time to Review Your Long-Term Plans

By TOM JENNINGS

Since the start of the pandemic, many organizations have understandably been focused on their day-to-day survival. Some long-term plans and even short-term initiatives were suddenly put on hold. While businesses are likely to continue feeling the impact for quite some time, it’s also provided an opportunity to think about the future of your organization.

Even with the current uncertainty, however, business leaders should always be asking themselves where they see the business going in the next five to 10 years. But right now you may also be asking yourself: Is this still where I want to go? Is it a realistic timeframe? And, perhaps most importantly, have I set myself up to get to where I want to be?

The new realities have created the need to explore new strategies and tactics that have the potential to put you and your business in a better position to execute your long-term goals.

MANAGING DEBT

Maximizing liquidity is a crucial step in positioning your business to take advantage of future opportunities, and managing debt is an essential component of any liquidity strategy. It starts with looking at how your debt is structured and finding areas of improvement.

Take capital expenditures. Do you usually use cash to purchase equipment? If you anticipate upcoming capital expenses, an equipment lease could allow you to acquire the equipment you need without tying up your cash, giving you the flexibility to reinvest in other parts of the business to generate a higher rate of return.

Look closely at other areas, such as a working capital line of credit, to see if there are more optimal ways to restructure your debt based on how your company currently operates. This is especially notable if your company has evolved since originally negotiating the terms of your debt.

It is important to not structure and size loans based on what has worked for you in the past, but to assess whether it is set up in a way that allows you to free up cash.

IMPROVING CASH FLOW EFFICIENCIES

Along with managing debt, optimizing your working capital is key in a tight margin environment. Chances are there may be more efficient ways to manage receivables, streamline your payables or deploy funds to areas to grow your business.

If you want to get to where you want to be in five years, you may need to make changes to your treasury and finance operations. Strategies and tactics designed to build liquidity and improve debt management can help get you there.

When looking at receivables, you should assess how long it takes between when you get paid and when you’re able to use those funds to pay your vendors, or to deploy them in a way that helps grow your business. Are you taking payment methods that get cash into your account right away?

For payables, consider alternative payment methods. You can ask your vendors if they accept more efficient payment options, such as a purchasing card, which will allow you to pay vendors faster, thereby improving your cash flow and freeing up working capital. Corporate cards can also earn you rewards that can help you save on other line items in your budget.

REVISITING YOUR OPTIONS

Not surprisingly, a lot of transition strategies have changed over the past few months. That should lead to asking yourself a few questions about your current plan. If you were considering ownership transition prior to March, for example, what was your plan for the next step? Was it handing off the business to the next generation? Given the current situation, would it be better to take a dividend payout instead? If you go this route, you’ll have to consider how much COVID-19 has impacted your financial performance. That could adversely impact the dividend you’ll receive.

In the current environment, would it be better to take a dividend payout instead? If you go this route, you’ll have to consider how much COVID-19 has impacted your financial performance. That could adversely impact the dividend you’ll receive. In the current environment, would it be better to take a dividend payout in three years instead of next year? If you expect earnings to increase after the effects of the pandemic have subsided, it may pay off to wait.

Maybe you were considering an outright sale of the business, or an acquisition to fuel growth. If so, do you have the right contacts in place? Do you have an idea of what type of acquisition target is right for your organization? Also, if your earnings were impacted by COVID-19, that will likely cut into the multiple you receive in a sale.

While there’s still a lot of uncertainty, there are steps you can take on the operational side that can help determine how to proceed with your transition plan.

CHARTING A NEW PATH

Is what you’re doing today getting you where you want to go?

With the changes brought on by COVID-19, it’s important to reevaluate your current state. That means being creative and open to new ideas. What you had been doing before March may no longer be the best path to get where you want to be.

The ongoing uncertainty still has many organizations in survival mode. But the changing business dynamics means it could be the right time to take a fresh look at where you are in your strategic plan.

Don’t let the current environment distract you from the fact that you need to stick to your plan, and make sure that what you’re doing in your day-to-day operation is setting you up for where you want to take your business.

Tom Jennings is the Southern California Market Executive for BMO Harris Bank. He can be reached at (310) 804-8076 or via email at tom.jennings@bmo.com

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Enhancing Liquidity Management: 4 Benefits of Visibility

Keep up to date with the evolving liquidity management landscape. These trends will help guide your strategy.

The future of liquidity management looks dramatically different, and that presents new challenges for financial leadership. The role of financial leaders will evolve over the next several years, with leaders looking to bridge the gap between legacy systems and modern processes.

Various market forces are impacting this evolution, and financial leaders need to stay ahead of the curve. According to Mary Brause, senior vice president at U.S. Bank, a thread of economic uncertainty lies hidden underneath these developments.

“We’ve been riding an economic roller-coaster for the last year and a half,” Brause said. “We’ve experienced inverted yield curves, rising and falling rates, and now a complete upheaval in the financial markets.”

Brause also noted that macroeconomic factors, such as digital payment systems and new payment rails, add to the complexities in liquidity management strategy.

“As e-payment systems emerge and evolve, legacy platforms aren’t necessarily able to keep up with these changes,” Brause said. “This requires companies to bolt together old technology and new solutions, which can introduce operational risk, potential payment processing failures, and increased work to clean up payment exceptions.”

The modern economic, environmental and technological landscapes demand the need for efficiency and optimization. These strategies can help improve visibility for your business.

OPPORTUNITIES TO ENHANCE VISIBILITY IN LIQUIDITY MANAGEMENT

Given the uncertainty facing modern financial leaders, it’s important to adopt your liquidity management strategy to changing circumstances. John Melvin, working capital consultant for U.S. Bank, notes that new technologies can encourage tactical and strategic evolution.

“Not only does technology have a major role in how payments are made, but in how companies process and account for the payments,” Melvin said. “A common objective for many companies is looking for ways to optimize their payment processes, and the benefits are significant.”

“Companies can reduce costs when they integrate payment solutions with existing treasury workstations and ERP infrastructures,” Melvin said. “For example, maybe matching invoices to support documents can create limited visibility into transactions as well as the recognition of cash.”

“With greater visibility, you can better identify where trapped cash exists. For example, company A sends company B a payment without remittance information. Cash can’t be applied without this information, so it sits waiting for outstanding data, such as trade/credit availability, investment decisions, or liquidity availability. This forces company B to borrow unnecessarily.”

REDUCE LIQUIDITY RISK

“Without visibility into your cash flow, you’re creating liquidity risk,” Brause said. “In addition to cash forecasting and managing seasonal cash flows, it may be worth considering a more robust technology solution that can automate payments tracking against contract terms, send payment reminders and monitor cross currency transactions.”

Melvin and Brause encourage financial leaders to evaluate their current pain points and determine how their operations would look with those barriers removed.

“For example, maybe matching invoices to incoming payments is a tedious process when there are errors or exceptions,” Brause said. “How quickly would you like to resolve exceptions? What tools and resources are available now to make this process easier?”

“Change is constant in liquidity management, and optimizing how you manage data, accept and receive payments and drive business processes will reflect directly on your bottom line,” Melvin added.

Enhancing your liquidity management requires insight into the latest payment trends and innovations. Contact U.S. Bank for more information.
Coronavirus and the Acceleration of Digital Disruption in the Workplace

The case for corporate-academic partnerships to upskill students for the future

By ROBERT J. SHERIDAN

The Coronavirus pandemic has brought astonishing change, very quickly, regarding just about everything. In many cases, these changes portend almost inevitable permanence, promising broad and deep consequences that are only now beginning to emerge.

In “Digital Strategy in a Time of Crisis” published as part of the McKinsey Digital series in April, mountains of data, and anecdotes across disparate industries, support the authors’ general claim of a seismic cultural shift that goes far beyond just tactical responses to the crisis.

They cite examples of businesses that once mapped digital strategy in one- to three-year phases who must now act in a matter of days or weeks. They suggest that concerns about customer and market readiness for dramatic and scaled experimentation have vanished in the face of a new imperative to learn, and adapt quickly. They point out that steep organizational obstacles have flattened, as have decision-making structures, timelines, and more.

The authors cite shifts in board priorities that account for more than just immediate shareholder returns, and in finance department proprieties to fund initiatives deliberately.

Customer adoption curves have accelerated, and in response, organizational cultures that long deferred agile work methods have been forced to keep pace, by hacking away at the inertia of entrenched silos of expertise and power. All of this has played out in recognition of a new truth: the future belongs to the nimble, not the defied agile work methods have been forced to keep pace, by hacking away at the inertia of entrenched silos of expertise and power. All of this has played out in recognition of a new truth: the future belongs to the nimble, not the defied agile work methods have been forced to keep pace, by hacking away at the inertia of entrenched silos of expertise and power. All of this has played out in recognition of a new truth: the future belongs to the nimble, not the

In higher education, web-based approaches to pedagogy that languished for a decade now attract urgent investment and the full embrace of the faculties who govern the nation’s colleges and universities.

In health care, the technology to provide virtual primary care appointments now established. Consider:

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Strategic CFOs: The Gatekeepers of Security

By DAVID LAM

Technology has been transforming business for decades and in recent years CFOs have become increasingly affected by these transformations. Advances in automation, artificial intelligence, and cloud computing are taking over traditional accounting functions, and the continued rise of operational and strategic CFOs has meant CFOs are more likely to have oversight of technical operations for the whole company. In order to control the accuracy and value of the data these advanced systems and processes provide, CFOs must take ownership of this technology and its concomitant security.

DECISION-READY DATA

Recent studies show that finance departments must provide comprehensive data that can drive decisions. Unfortunately, the tools being used often do not provide digestible and actionable information. Implementing tools that provide real-time metrics, often leveraging the cloud, can come with trade-offs in governance standards or security that carry significant risk. After ensuring that the data is suitably secured, CFOs need to ensure that their teams are creating usable metrics within appropriate contexts.

GOVERNANCE

As if this wasn’t enough to worry about, CFOs in charge of technology must ensure that their data is protected – and the more data you have available, the more data that can be stolen. This requires understanding – at a high level – the moving parts in your technology ecosystem, usually via a subject matter expert you trust. Importantly, technology and information security are separate disciplines, each with their own body of knowledge.

Beyond understanding the technology ecosystem, CFOs must also ensure compliance with privacy laws, breach laws (of which there are 50+), and contractual agreements. Many companies that take credit cards are unaware of the risk that they face by not being compliant with the obligations outlined in their credit card contracts. We often find with new clients that they simply didn’t know that they had to fill out questionnaires and be compliant with (what can be) an extensive list of questions. That means that should data be breached, their companies could face major fines or even lose their ability to take credit cards.

SKILLS DISCONNECT

As companies leverage new technology and have to account for increasing regulations, talent management must also evolve – otherwise companies risk a digital skills disconnect that can lead to multiple areas of risk to the organization. Executives must ask themselves:

• Is the team sufficiently trained in how to use these tools?
• Do they know how to interpret the data in these tools?
• Can we make informed decisions based upon the data presented?
• Do we have the right team to secure this data?
• Does the front line staff understand the risk of a data breach?
• Are the tools and systems we use compliant with all the necessary privacy and security regulations across multiple jurisdictions?

WHAT TO DO?

Here are some tips that can help you ensure success:

To execute well from the start, you need skilled team members who can support you with an accurate vision of the future. Understanding what your goals are from a data analysis perspective and how to execute is critical in any team member who designs the system. Similarly, your technology and security experts need to have training and real-world experience.

Since you will be likely leveraging multiple cloud solutions, it’s important to remember that your choice of cloud provider definitively impacts how well your data is protected. Only use cloud providers who have appropriate, audited credentials for security. Any provider’s claims of information security should be backed up by an external company that certifies that the security practices are appropriate to the data being stored.

Ensure that your governance, security and privacy considerations are addressed from the beginning - that applies whether you are hiring an IT provider, implementing a new Business Intelligence system, or redoing a process. Governance, security and privacy are very difficult to add in after the system is in place. Getting it right from the beginning, as we all know, is the most effective and efficient way.

David Lam, CISSP, CPP is a partner at Miller Kaplan. For more than 30 years, he has been managing information for small and medium businesses including custom software development, systems management, and information security. Learn more at millerkaplan.com/information-security.

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In July of 2017, when Steve Binder joined MannKind as Chief Financial Officer, he knew he had his work cut out for him to get the company into a solid financial position. With over 25 years of experience in the healthcare and medical device industry, he jumped right in to quickly address MannKind's largest obstacle: a financial overhang of over $150 million in debt.

Within his first nine months at the company, Binder led efforts to successfully execute multiple debt restructuring and partnership deals, extended debt maturities, strengthened the balance sheet, further improved operational efficiency, resource allocation, and cash flow management. And, despite the market's sentiment reflected in declining market cap, he raised $90 million in equity offerings by convincingly conveying the renewed corporate vision to the investment community.

MannKind has faced its fair share of challenges since its founder, Alfred Mann, invested over $1 billion of his personal funds in a product he so deeply valued. The biopharmaceutical company on a mission to give people control of their health and the freedom to live life, has spent nearly $2 billion to transform a 100-year-old insulin product, and now commercializes Afrezza (insulin human) Inhalation Powder, its first FDA-approved product and the only inhaled ultra rapid-acting mealtime insulin in the United States. Through the development and commercialization of therapeutic products and technologies for patients with diabetes and orphan lung diseases, MannKind is driven to find new ways to change lives for the better.

While MannKind's state-of-the-art manufacturing facility resides in Danbury, Connecticut, the company moved its headquarters to Westlake Village, California in 2017, and as part of that effort, relocated corporate functions, including finance, to the West Coast. During this transition, Binder played an integral role and built an exceptional finance team of talented and experienced pharmaceutical professionals, while simultaneously creating a new investor relations and treasury capability. Binder's team focuses on creating financial stability and fostering a performance driven culture where analytics and continuous improvement are among some of the key principles that guide them.

Binder's leadership has been vital to the positive growth of the company. Going from $17 million cash in the bank when he first joined to a $63.2 million cash balance for 2Q of 2020, has put the company in a strong financial position for a bright future ahead. MannKind recently also received its third $12.5 million milestone payment from United Therapeutics for Treprostinil Technosphere (TreT), a product currently being evaluated in clinical trials for the treatment of pulmonary arterial hypertension. And, the company is working on integrating technology into diabetes care with BluHale, an apparatus used to sense the change in pressure when a user inhales through the mouthpiece. It then relays the information via a Bluetooth connection to a smartphone app so the user can learn more effective inhalation techniques. BluHale Pro, specifically for healthcare providers, is scheduled to launch later this year.

An outstanding mentor and leader, Binder's ability to identify and implement sound fiscal processes and strategies has made him a trusted member of the executive leadership team. During his time at MannKind, he's built strong relationships and positively influenced investors, board members, auditors and financial institutions, which has led to an increase in research analyst coverage and strengthened MannKind's institutional investor base. His commitment to financial best practices, fiscal integrity, and accountability has resulted not only in the company's strong fiscal health, but trust, respect and admiration for Binder and the entire finance team at MannKind.

Prior to MannKind, Binder served as Chief Financial Officer & Vice President of Stryker Corp, a leading global medical technology company, and was based in Singapore. Prior to Stryker, he served in a series of senior leadership roles at Bristol-Myers Squibb Company. Binder also held finance and accounting roles at BMS Worldwide Medicines Group and Deloitte & Touche. He received a B.S. degree in Accounting and Business Administration from Muhlenberg College and is a Certified Public Accountant. You can find him golfing, mountain biking, hiking, Nordic skiing, and snowshoeing in and around the mountains of California.

Learn more about MannKind Corporation at MannKindCorp.com.
Sound Decisions: How to Drive Value and Prepare for the Future

By SHAWN PANSON

How prepared is your portfolio company for the next big disruption? It may depend on how far along you are on your digital transformation journey. It’s imperative today to invest in digital transformation—not only to help prepare for the next disruption, but also to grow and stay competitive.

Digital transformation is a continual investment in core business platforms to enable differentiated capabilities—implementing new technologies to deliver products and services more efficiently, improve margins, offer a better customer experience and develop and attract talent. A digital transformation is a continuous effort and mindset that should be integrated into the fabric of the business and embraced as part of the strategy.

WHY PRIORITIZE DIGITAL TRANSFORMATION NOW?

The COVID-19 pandemic might be considered a once-in-a-lifetime “black swan” event, but its impact has been vast, and it put companies around the world on notice. The swift and sudden shift to a virtual work environment highlighted which companies had invested in digital transformation and which had gaps. Many companies faced hurdles as they moved to a remote business environment, whether it was setting employees up with remote access to the tools and technology they needed to operate, or overlooking cybersecurity gaps.

The disruption showed how important it is for companies to be resilient and agile. Those that had made investments in technology continued to perform during the crisis without skipping a beat. They were able to transition more quickly and smoothly to a remote working environment and in many cases, a remote way of managing operations that was essential during the crisis. Embedding digital transformation across the business model can help give companies the flexibility to adapt as the business and markets change.

There is an expectation for companies to be digital in a post-COVID-19 world. That means being able to conduct your business no matter what disruptions may come and being able to respond fluidly to those changes; it’s also being able to advance early deal interaction virtually, from initial management meetings through operational and financial due diligence.

Investing in digital transformation can help ensure the business strategy is appropriate, efficient and agile. Middle-market private equity sponsors should have collaborative discussions with their portfolio companies to help ensure the business strategy is appropriately integrated with digital technology to help drive value and to be ready for what the future brings.

Shawn Panson is the Private Company Services leader for PwC US. In this role, he has a team of over 200 partners and more than 2,000 audit and tax professionals across 18 markets dedicated to serving private companies and their owners.

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Chief ‘Flexibility’ Officers: COVID-19 Pushes CFOs to Become Change Agents and Strategists

According to a recent survey by Grant Thornton LLP, COVID-19 has forced chief financial officers (CFOs) to become “change agents” and “strategists” — while still overseeing their day-to-day finance responsibilities.

Grant Thornton collected data for its survey — The 2020 CFO Survey Report — in two parts. It fielded an initial questionnaire in February 2020 when most U.S. workplaces were still open, unemployment was at record lows and the economy was on a positive trajectory; it then fielded a second questionnaire in May 2020 after the COVID-19 pandemic was in full swing.

The second questionnaire in May made it clear that the role of the CFO was expanding in new directions — with 42% of CFOs spending as much as half their time in a “strategist” role. This represents a 13-point increase compared to February.

Moreover, 41% of finance leaders said in May that COVID-19 was causing them to spend more than half their time on control and compliance efforts dropped from 36% in February to just 8% in May. Similarly, only 9% of CFOs said they spent more than half their time handling transactional processes in May — a drop from 40% in February.

When Grant Thornton asked CFOs to identify the skills they value most, there was a revealing shift in priorities between February and May.

“CFOs are preoccupied analyzing their businesses and refocusing resources to support corporate strategy,” said Nick Vellani, national managing principal of Financial Management at Grant Thornton. “As a result, CFOs have had to look for new ways to capitalize on trends like automation and outsourcing. The simple truth is that the CFO is now a primary decision maker, thought leader and voice of reason.”

The changing data between February and May also sheds light on just how deeply CFOs are involved in their organizations’ work-from-home initiatives and related IT and cybersecurity efforts.

“Transitioning to the lockdown was a massive undertaking that required CFOs to use their skills in new ways,” Vellani added. “Whether CFOs will permanently own their new ‘change agent’ and ‘strategist’ roles after the pandemic subsides will largely depend on their abilities to delegate, automate, train and outsource.”

AN INNOVATION SLOWDOWN

“According to the survey, the pandemic has also influenced the ways organizations innovate. In the February survey, approximately 70% of finance leaders indicated they had implemented key emerging technologies or planned to do so within the next two years. In May, 62% of respondents had delayed their innovation projects, while another 19% reshaped such projects. Only 19% of respondents accelerated innovation projects.”

“To maintain positive momentum, decision makers must continue to push for innovation — even during the economic slowdown,” said Chris Stephenson, managing principal of Product Innovation at Grant Thornton. “While technology is often the core area, it’s important to understand that the boundaries of innovation extend beyond just technology.”

Stephenson suggested that finance leaders should identify their immediate challenges and develop incremental improvements that deliver measurable results.

“In practice, many CFOs are finding that small improvements can make continual innovations tailored to their immediate challenges, which delivers ongoing results, especially during a pandemic.”

Grant Thornton’s Vellani summed it all up this way: “Businesses are learning to navigate a new and complex environment — one that requires a thoughtful and strategic plan. In response, CFOs must restructure their responsibilities and build a finance function that will support transformative changes.”

For additional findings from Grant Thornton’s 2020 CFO Survey, visit: grantthornton.com/cfosurvey2020.

Founded in Chicago in 1924, Grant Thornton LLP (Grant Thornton) is the U.S. member firm of Grant Thornton International Ltd, one of the world’s leading organizations of independent audit, tax and advisory firms. Grant Thornton, which has revenues in excess of $1.9 billion and operates more than 50 offices, works with a broad range of dynamic public and private companies, government agencies, financial institutions, and civic and religious organizations.
Business Confidence Begins to Rebound as Firms Grapple with Effects of COVID-19

CFOs and other financial decision-makers said they were more optimistic about the financial prospects of their firms and the direction of the U.S. economy in the second quarter of 2020 compared to the first quarter, according to the results of The CFO Survey, a new collaboration of Duke University’s Fuqua School of Business and the Federal Reserve Banks of Richmond and Atlanta.

The CFO Survey was conducted from June 15-26 among financial decision-makers in firms of varying sizes and across industries. Participants were asked to rate their optimism for the financial prospects of their firms on a scale of 0 to 100, the average optimism rating was 70, an improvement from the first quarter (60) and close to the average for the past several years. When asked to rate their optimism about the overall U.S. economy from 0 to 100, the average rating was 60 — also an improvement from 51 in the first quarter, which was conducted from the beginning of March through the beginning of April in 2020.

In spite of the improvement in the optimism indexes, the trajectory of the recovery was not clear, according to survey responses. “Firms continued to express concerns around the shape and strength of the recovery — for their firms, their industries, and their customers,” said Brent Meyer, policy advisor and economist at the Federal Reserve Bank of Atlanta. “The comments from CFOs and financial decision-makers from firms across industries indicate that the COVID-19 pandemic has dramatically affected their views of the U.S. economy and the financial prospects of their firms.”

On average, firms expected revenue to decline 2 percent in 2020, but grow 7 percent in 2021. Operating income, employment, and total compensation were also expected to bounce back in 2021 after shrinking in 2020. This pessimism about 2020 was corroborated by firms’ low expectations for gross domestic product (GDP) growth to be negative for the calendar year 2020.

When asked about their most pressing concerns, by far respondents’ most common concern was around their own firms’ sales/revenues and customer demand. Further, about one-third of firms responding to the survey cut employment since early March, with the average firm reducing their workforce by 5.5 percent. Most of the respondents attributed the cuts to reduced demand during the COVID-19 pandemic.

“Although some of these jobs will return by the end of the year, CFOs on average expect year-end 2020 employment to be 3 percent lower than it was at the beginning of the year,” said John Graham, a finance professor at Fuqua who has facilitated the survey for nearly 25 years. “By year-end 2021, employment is still expected to remain below pre-COVID levels.”

About half of firms applied for new credit in the last six months, the survey showed. Although most firms that applied for credit reported that it was more difficult to access credit, almost all of them received loan amounts at or near the amount requested.

“In addition, almost all responding firms with fewer than 500 employees applied for funding from the U.S. Small Business Administration’s Paycheck Protection Program. “PPP funding has been an important part of the survival mechanism that firms have employed in the last few months,” said Sonya Ravindronuth Wickrell, vice president and economist at the Federal Reserve Bank of Richmond. “The fact that almost all of the firms who reported taking PPP funding anticipate a full forgiveness of the loan is one positive indicator for employment as policymakers try to anticipate the trajectory of the recovery.”

The CFO Survey is issued by Duke University’s Fuqua School of Business and the Federal Reserve Banks of Richmond and Atlanta. The latest survey, as well as historical data and commentary, can be found at cfosurvey.org.
CFOs Should Avoid Peer Pressure and Build Cost Strategy Around Differentiating Factors

Only a third of firms drive returns greater than the cost of capital, according to a Gartner, Inc. analysis of cost structure models. For those organizations built around factors such as unique competitive differentiators they drive a 6% greater return on return on invested capital (ROIC) over 3 years when compared to those with cost models focused on external factors such as competitive trends.

“Most companies have cost models that respond to factors external to the organization,” said Jason Boldt, research vice president for the Gartner Finance practice. “This might take the form of chasing the same ‘hot’ markets as competitors or overcommitting to well-known trends such as digital business or artificial intelligence.”

Yet CFOs who model their costs around the differentiating factors unique to their organizations secure on average a greater excess ROIC versus those who focus on extrinsic factors. They also exhibit more resilience in the face of unexpected events, such as the COVID-19 economic crisis.

“Even before the COVID-19 downturn, less than a third of public companies we studied were earning returns above the cost of capital,” said Boldt. “Our research shows that CFOs are often blown off course by external targets that prioritize growth over profitability. Their targets, because they are externally focused, are routine-ly disrupted by changes to the macro picture.”

As part of the analysis, Gartner studied the performance of 1,142 public companies over an eight-year period and complemented this quantitative analysis with in-depth interviews of large enterprise CFOs. The analysis revealed that the factors that influence the CFO in determining how they structure and prioritize costs can have a meaningful impact on value creation and excess economic return.

FOLLOWING COMPETITORS LEADS CFOS ASTRAY

The pressure to model growth, and therefore cost management strategies, around matching competitors leads to chasing after crowded markets, pursing dubious trends and deals that boost short-term growth at the expense of long-term value. Among the public companies Gartner studied for long-term performance, revenues have improved by 25%, yet reinvestment efficiency and profitability both declined over the same period.

“The story of the last decade has been one of mostly unprofitable growth,” said Boldt. “It’s clear from our research that CFOs who follow the herd and chase popular trends suffer when it comes to the most important long-term metrics.”

DIFFERENTIATED COST STRUCTURES DRIVE VALUE

CFOs seeking to move towards a differentiating cost structure will face three risks. First, when the business gets word that CFOs are protecting costs associated with differentiation, everything becomes differentiating to protect business unit’s budgets. Second, budget holders will potentially ask for increased resources to achieve differentiation. Finally, business leaders may struggle to make appropriate tradeoffs.

To overcome these barriers, Boldt recommends the following approaches:
• Cross-Functional, Not Finance vs. Business
• Test-and-Learn, Not “All-In”
• Pressure-Test Constraints, Not Budget Inputs

“Inputs to the thousands of individuals and families we serve.

HANMI BANK Congratulates CFO Romolo Santarosa

for his CFO of the Year nomination from LA Business Journal

Mr. Santarosa brings more than 28 years of experience in banking and financial services to the Hanmi team. We are thankful for his leadership and contributions to the communities we serve.

JEWISH FAMILY SERVICE LA congratulates DAVID FELMAN on his CFO of the Year Award Nomination

Thank you for your exceptional leadership, passion and commitment to the thousands of individuals and families we serve.

SEPTEMBER 21, 2020
Understanding the Role of a Financial Advisor

In a society that grows more complex every day, consumers are presented with the constant pressures of family, career, and community responsibilities and personal enrichment. The financial marketplace is ever-changing with new laws, regulations, economic events, market changes, product offerings and conflicting media messages. Making the right financial moves at the right time is critical to achieving security and accomplishing personal objectives.

A personal advisor guides the financial planning process: goal identification, data organization, analysis, problem identification, recommendations, and most important - plan implementation and results monitoring. Your advisor will help you save, spend, invest, insure and plan wisely for the future.

A Registered Financial Consultant has met the qualifications required to serve the public effectively, and moreover, is committed to ethical standards and continuous professional education.

WHAT IS THE RFC DESIGNATION?
The Registered Financial Consultant (RFC) is a professional designation awarded by the International Association of Registered Financial Consultants to those financial advisors who can meet the high standards of education, experience and integrity that are required of all its members.

The IARFC is a non-profit professional credentialing organization of proven financial professionals formed to foster public confidence in the financial planning profession, to help financial advisors exchange planning techniques, and to give deserved recognition to those practitioners who are truly committed to ethical standards and continuous professional education.

Because there are no consistent licensing requirements for the various persons who call themselves “financial planners” the public has a critical need for a method of distinguishing the qualified and dedicated financial advisor.

WHAT IS THE PURPOSE OF THE IARFC?
The primary purpose of the IARFC is to provide the public with a convenient access to a pool of well-qualified practitioners from which to choose a personal financial advisor. It is the only professional organization that requires all of its members to meet and document seven stringent requirements of education, experience, examination, integrity, licensing, ethics and a significant amount of continuing professional education.

RFC EXAMINATION PROCESS

CONTINUING EDUCATION REQUIREMENTS
Each year the RFC must complete a minimum of 40 units (hours) of professional continuing education. This includes college courses, educational symposiums, credentialing courses, distance learning programs and practitioner conferences. Many RFCs are instructors at colleges and conferences.

WHAT ABOUT OTHER PROFESSIONAL DESIGNATIONS?
We hold the RFC designation to be different and perhaps more encompassing. However, the IARFC does not assert that many other professional designations or their organizations are inferior. The public is not served by divisive criticism, but rather by dedicated and well-prepared professionals. Our goal is to encourage professional conduct and collaborate between professional advisors, with strong emphasis on the importance of continuing education.

HOW DOES THE IARFC MAINTAIN AND PUBLISH THE CREDIBILITY OF ITS MEMBERS?
The IARFC removes the designation from anyone who fails to maintain proficiency through substantial continuing education, or who betrays the public trust by failing to live up to its Code of Ethics or by having a professional license revoked or suspended for misconduct or any reason.

This article was provided by the International Association of Registered Financial Consultants.
Gartner, Inc. has identified the top 10 trends that will be critical to the success of CFOs. CFOs and Finance leaders can sometimes struggle to make sense of the many trends that impact their finance function and the wider organization today. Understanding these 10 trends will enable them to succeed in their role.

1) Digital is creating a skills disconnect
As organizations continue a path toward digital transformation, finance talent management strategies must evolve more quickly. CFOs need to revise competency models to address the digital shifts impacting their business, which will inform how they recruit, develop, retain and provide career growth for staff.

2) Demand for decision-ready data
Organizations often handle data in a rigid way that doesn’t help the business make a decision. Finance leaders must make trade-offs in governance standards to make their data more useful in decision-making.

3) The AI revolution has begun
“In the coming decade, artificial intelligence (AI) will optimize or transform nearly every activity in finance,” said Wilton. “Finance leaders should educate themselves on how the function may change, prepare their team with new skill sets, and explore the investments needed to deploy AI.”

4) An emerging fourth era for ERP
Enterprise resource planning (ERP) has entered its fourth era and for finance leaders this means being ready for standard global processes across its organization with real-time data and intelligent platforms. Finance organizations will need to respond faster than ever before to continuous cloud-updated ERP and treat it as an organizational rather than an IT asset.

5) Growing use of global business services
Shared services as a concept has moved far beyond finance transaction processing and now includes value-added services in finance and beyond. Focus away from just cost reduction toward value delivery.

6) Reporting goes on-demand
Reporting expectations have evolved, and this will increase pressure on the finance team to deliver real-time reporting. Moreover, stakeholders will demand real-time access to finance data and advanced analytics.

7) RPA is putting internal controls at risk
The efficiency and potential of robotic process automation (RPA) are already spurring widespread adoption in finance. It’s important that finance leaders do not allow themselves to be blinded by the many benefits. In some cases, RPA robots have been used without the knowledge of internal control teams, causing unknown reporting risks.

Finance teams must balance governance of RPA and other digital technologies with efficiency. They must think about how they can track RPA use cases for their impact on controls and think about what are the right internal controls for RPA.

Learn more at Gartner.com.

**Seven Trends CFOs Must Understand to Prepare for the Future of Finance**

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