

Wielding the knife: treasury's role in the carve-out



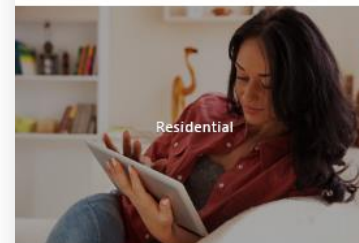
October 2017 – Barcelona – By Mario Del Natale

Company Overview

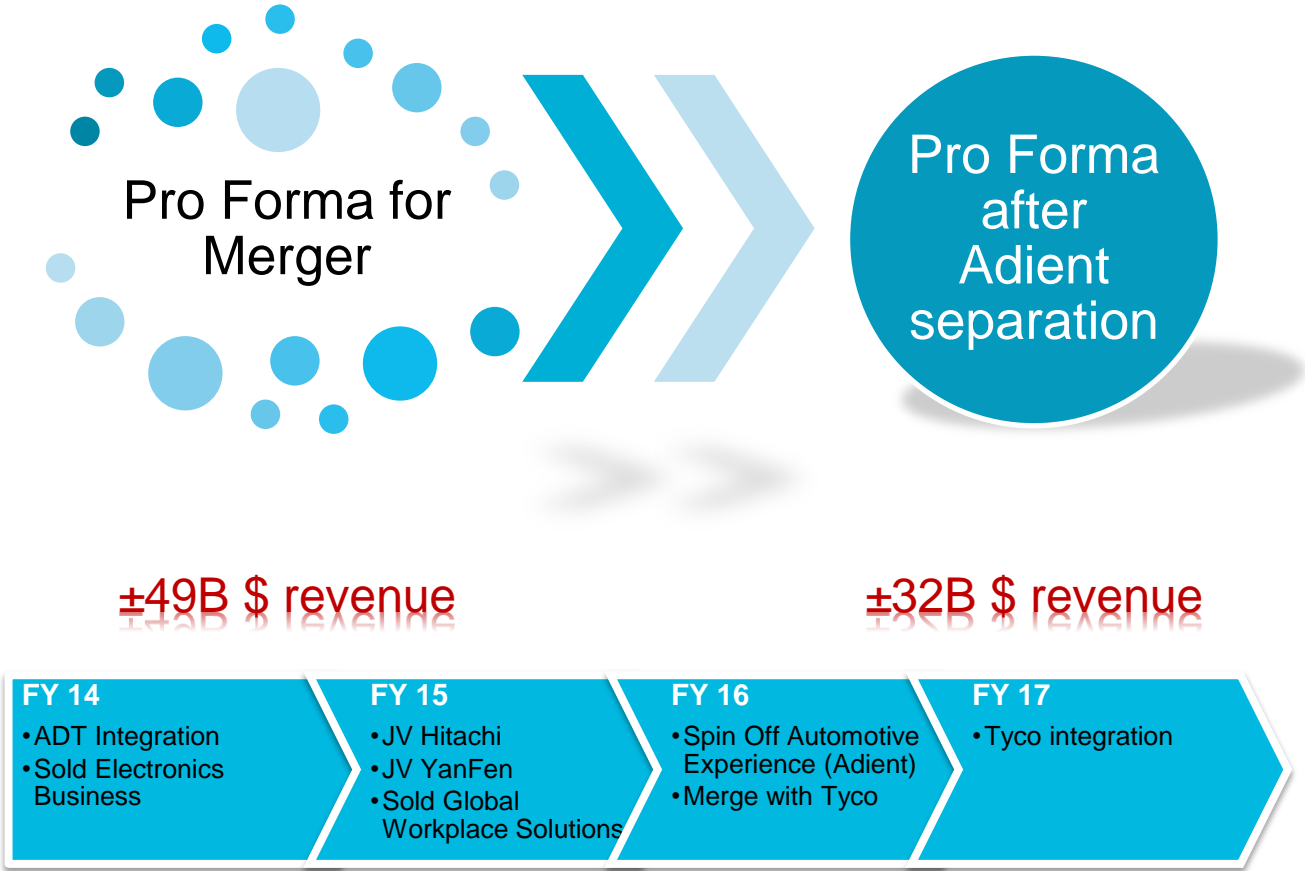


Learn about Johnson Controls

- Johnson Controls is making the future more productive, more secure and more sustainable.
- We create intelligent buildings, efficient energy solutions, integrated infrastructure and next generation transportation systems that work seamlessly together to deliver on the promise of smart cities and communities.
- Johnson Controls is a **global diversified technology and multi industrial leader** serving a wide range of customers in more than **150** countries, **2,000** worldwide locations and **120,000** worldwide employees
- Our commitment to sustainability dates back to our roots in 1885, with the invention of the first electric room thermostat.
- And we are committed to helping our customers win and creating greater value for all of our stakeholders through strategic focus on our buildings and energy growth platforms.



Transformation Path



±49B \$ revenue

±32B \$ revenue

- Johnson Controls Inc. merged with Tyco International plc on September 2016, 2nd
- Started trading as Johnson Controls International plc on September 2016, 6th

Creating a Portfolio of Leading Brands



#1 in HVAC, Controls, Fire, Security and Power Solutions

Spin-off Workstreams

One Global Common Objective



Many Workstreams... with one global common objective, being fully operational separation by July 1st 2016 for spin-off on Oct 1st 2016 (*)

Program Management Office (Level 1)



Workstream Leads (Level 2)



Guiding Principles:

- "Avoid Transition Services Agreements"
- "Clone and Go"
- "Speed primes over elegance"
- "High sense of urgency"

(*) was later delayed to Oct 31st because of Tyco merger

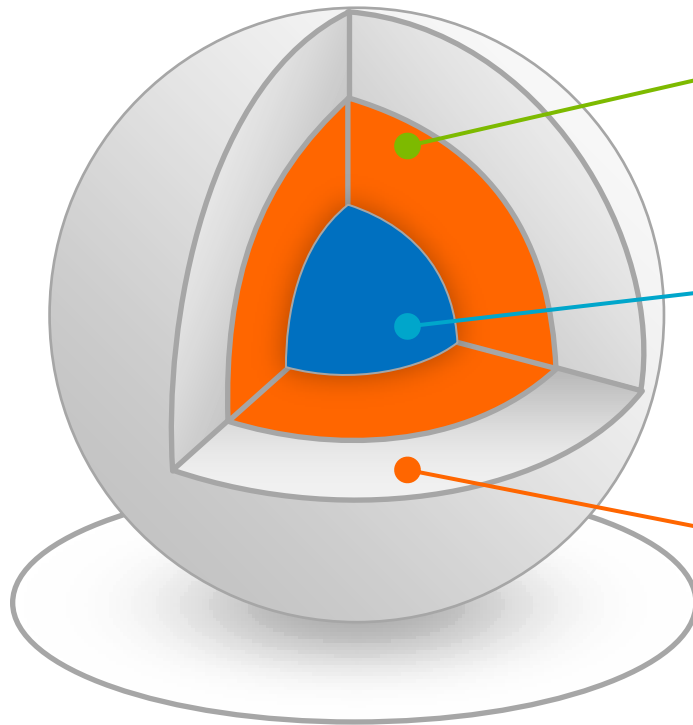
Governance and Project Timeline



Treasury Separation: 4 Workstreams

- Workstream 1: Adient Capital Structure & Ratings
 - Global Lead: VP & Corporate Treasurer Johnson Controls, Inc.
 - Co-leads: VP & Assistant Treasurer (future Treasurer of Adient)
- Workstream 2: Pensions
 - Global Lead: VP & Assistant Treasurer
 - Co-leads: VP & Treasurer EMEA, VP & Treasurer APAC
- Workstream 3: Treasury Operations
 - Global Leads: VP & Treasurer EMEA & VP Global Financial Risk Management
- Workstream 4: Adient Treasury Department
 - Global Lead: VP & Corporate Treasurer Johnson Controls, Inc.
 - Co-leads: VP & Assistant Treasurer, VP & Treasurer EMEA, VP & Treasurer APAC, VP Global Financial Risk Management

The 'Project'



1. To setup in eight months' time, a fully operational standalone Treasury Department for the future spin-off company called 'Adient'.
2. That would operate in four locations worldwide, with complete staff, all required systems and applications, with adequate liquidity structures, credit facilities, ISDA agreements, EMIR reporting, policies and so forth.
3. This case is about what JCI Treasury Team considers to have been the most critical and challenging element → Treasury Systems and Applications separation.

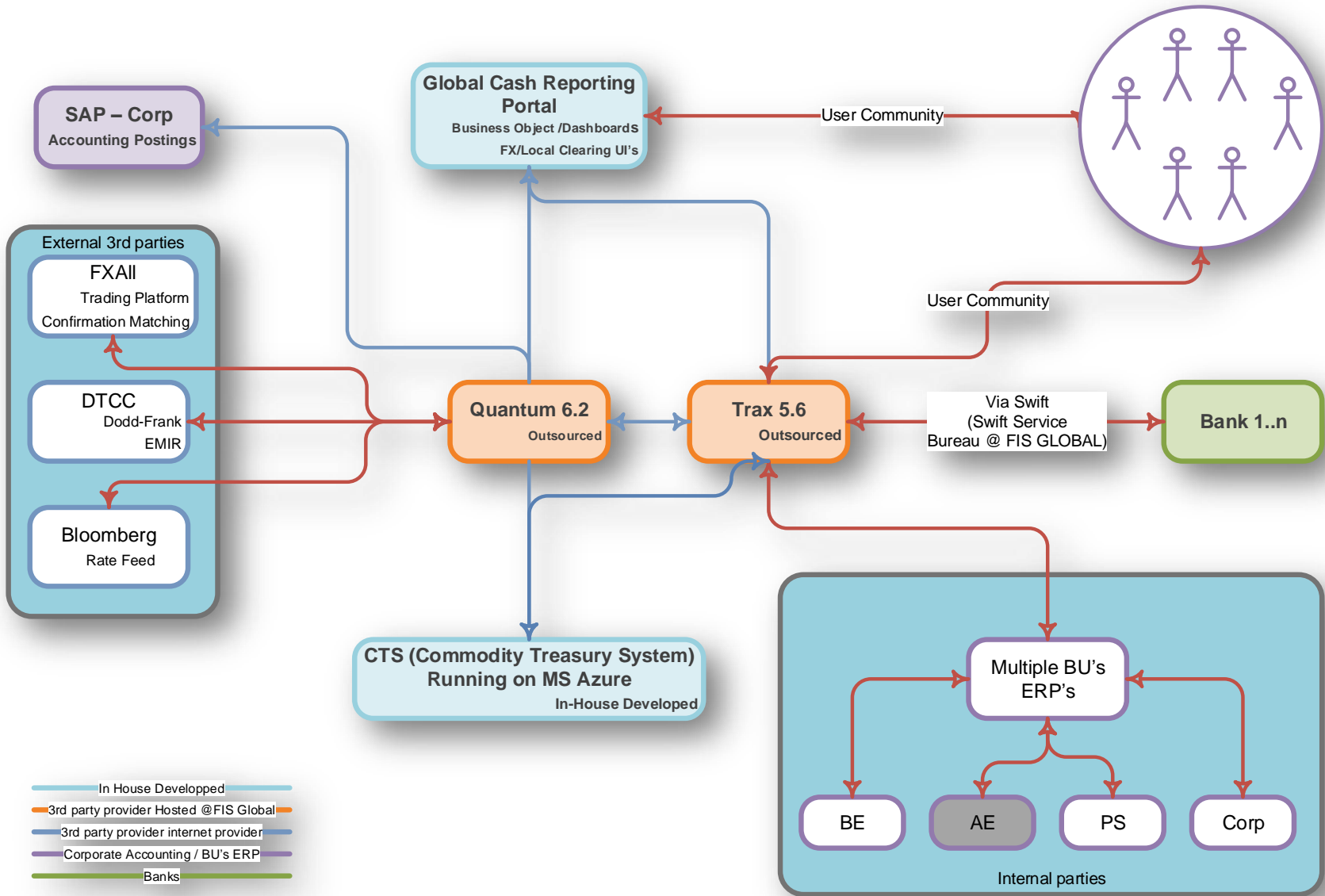
Project Governance Structure



Cloning the Treasury Applications Infrastructure for Adient



Johnson Controls Treasury Applications Infrastructure



A few considerations when starting such a complex project

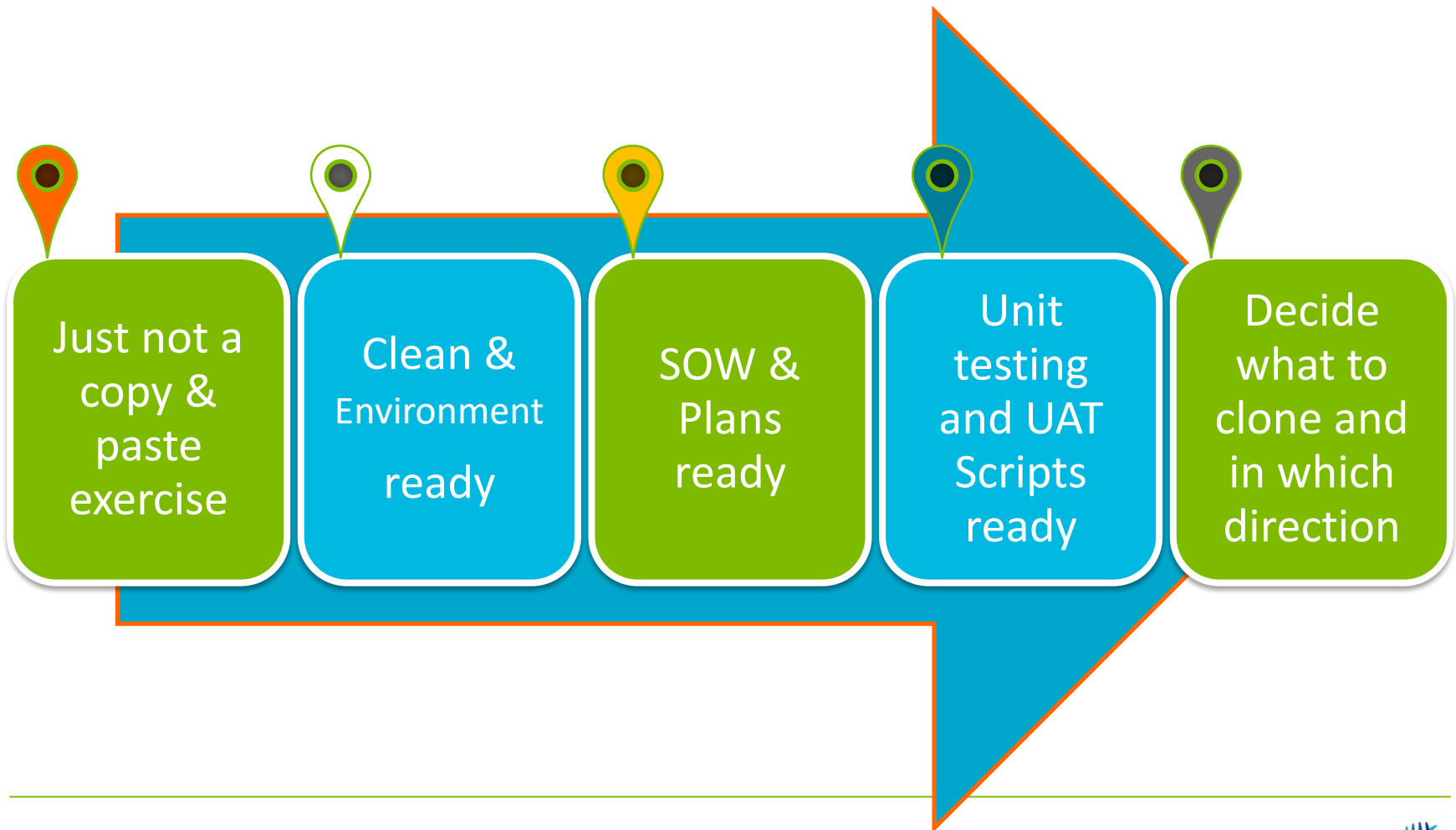


■ Like any project, it is like building a house

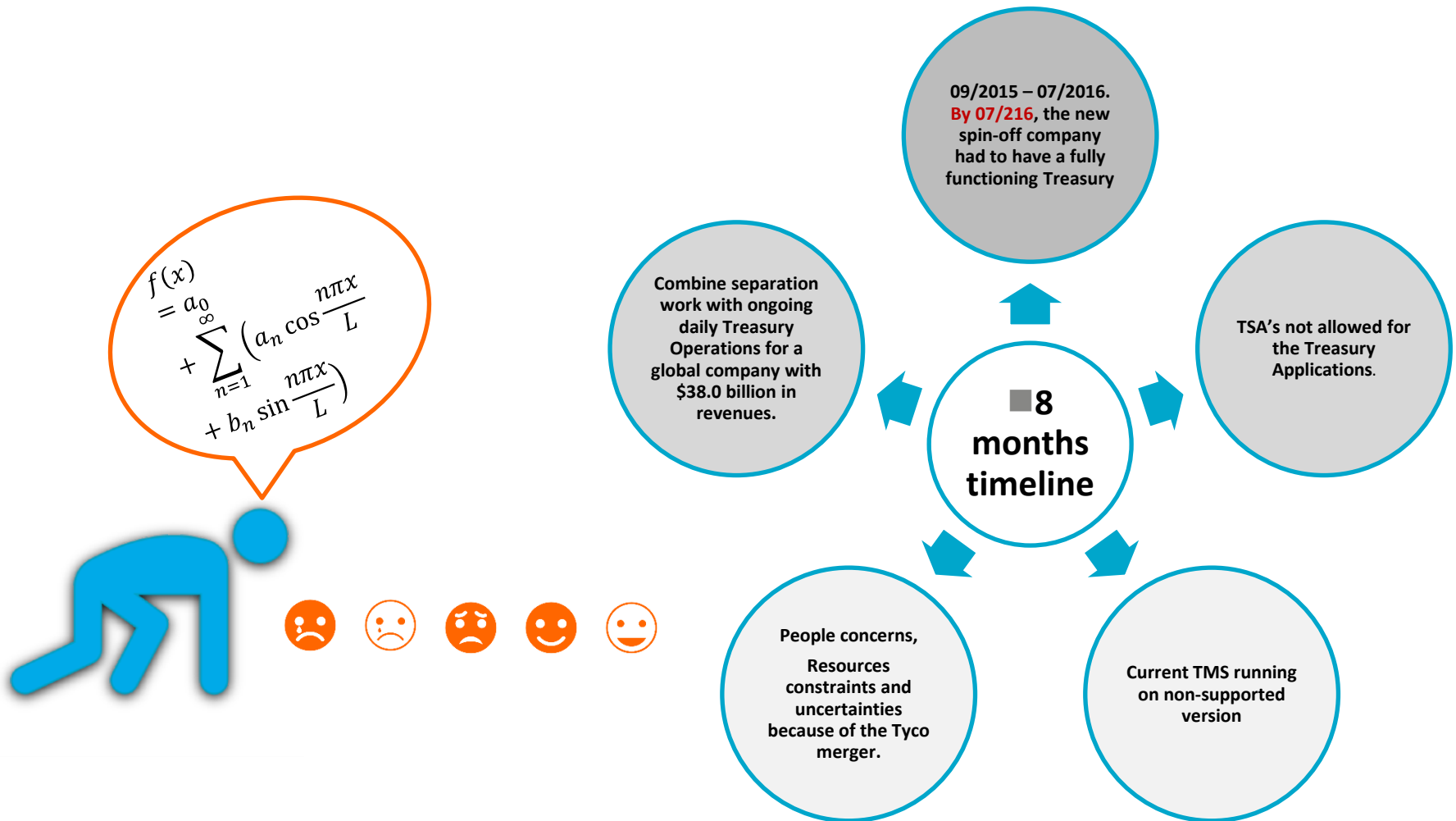
- Have the right plans
- Build block by block
- Keep the pace and stick to your strategy

Clone and Go : does it work?

- Yes, it does. However...



The 'Key Challenges'



Some figures – For information

Categories	Counter
Entities	+1,000
Banks connected via Swift	+200
Bank Account (active)	+ 3.000
Bulk Payments – Counter Value in \$ (including internal FX Transactions) per year	± 415 Billion
Unitary Payments / Credit Advices – Counter Value in \$ per year	± 180 Billion
Number of FX Deals (May 2012 – September 2016)	± 80.000
FX Transactions in \$ per year	± 240,000 Billion
Number of Interco Loans	± 800
Accounting Entries / month	± 50,000

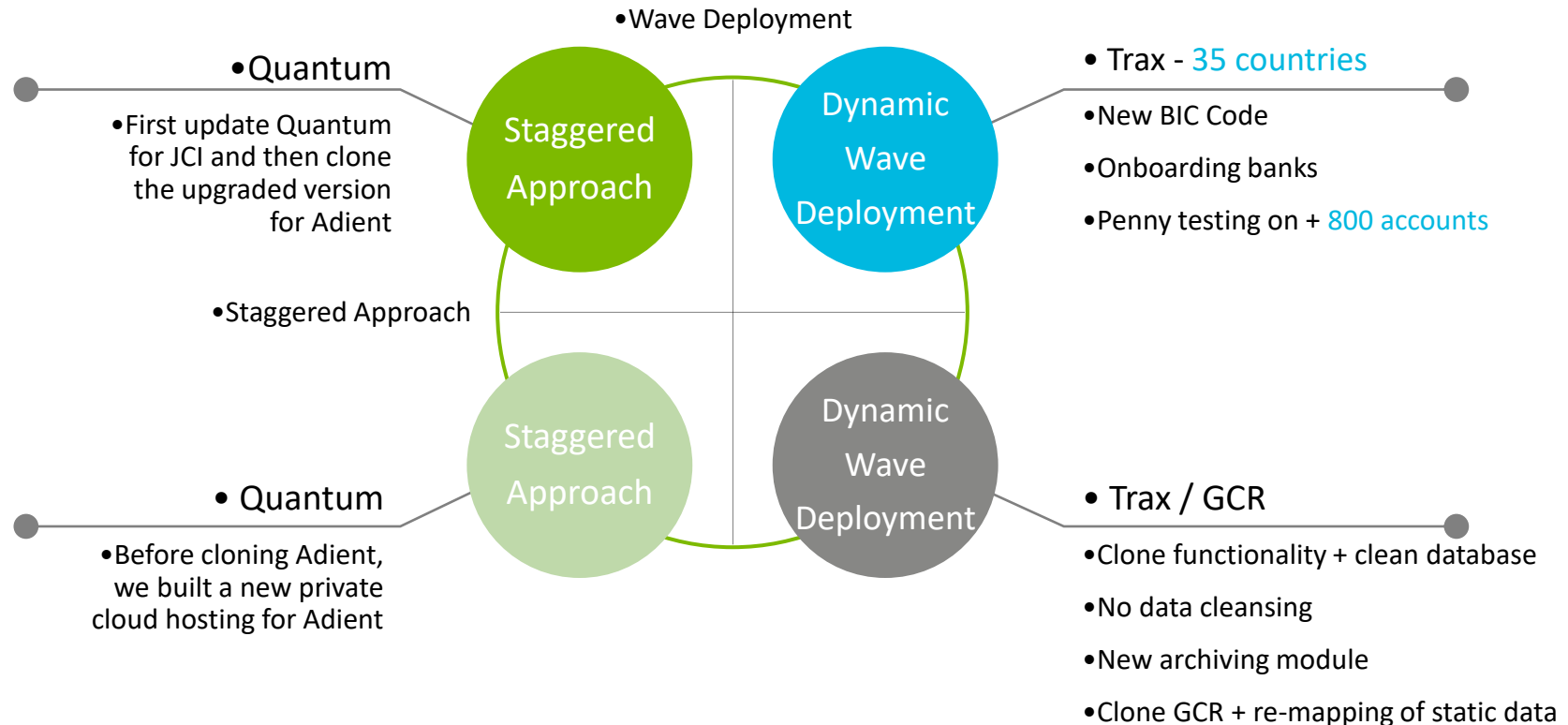
■ Payments

- Over 95% of transaction volume relates to operational cash flows
- Over 90% of monetary volume relates to financial cash flows (external & internal derivatives, CP funding, inter-co loans, equity injections, etc.)

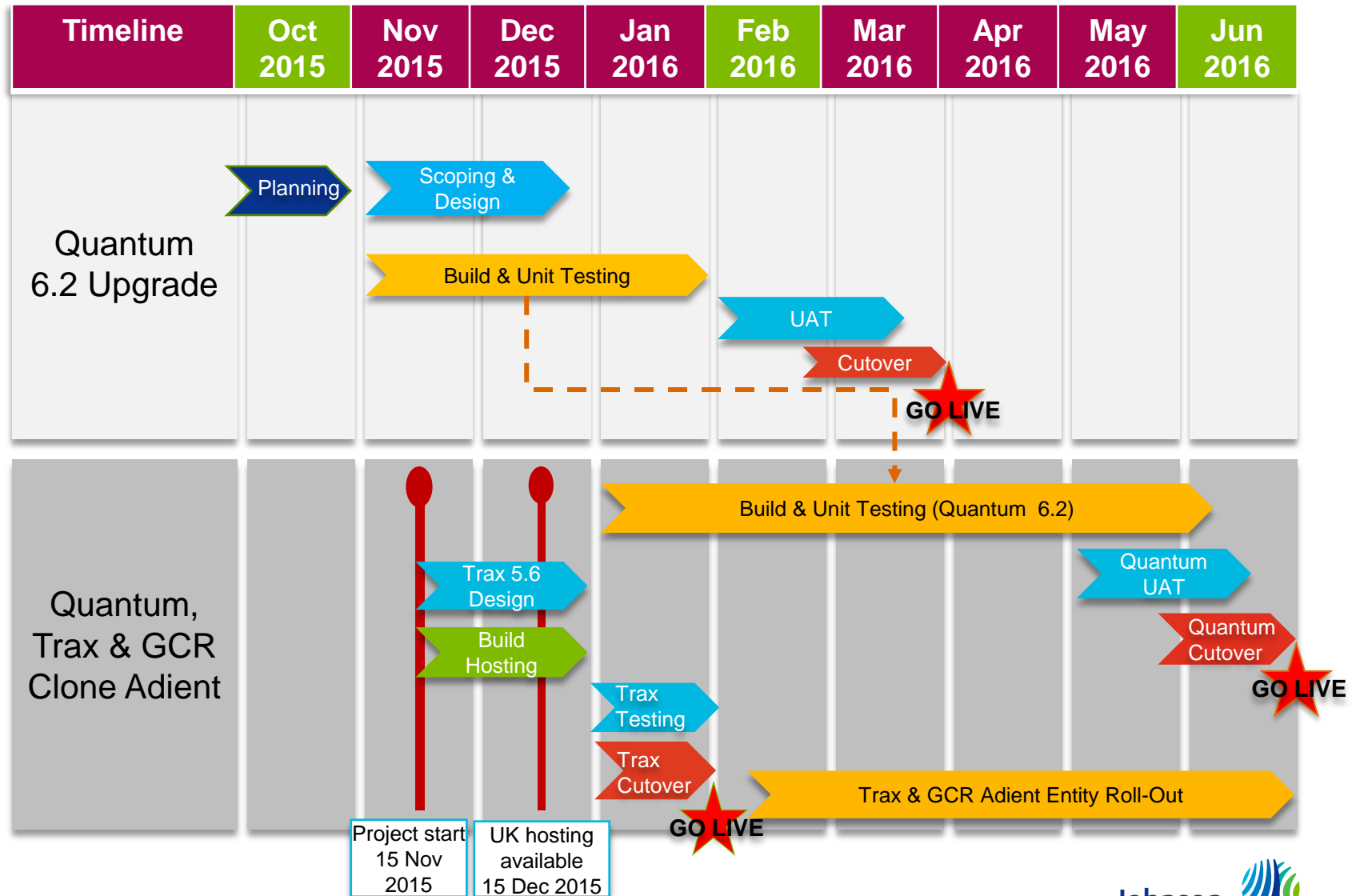
**Our strategy in terms of
delivery**



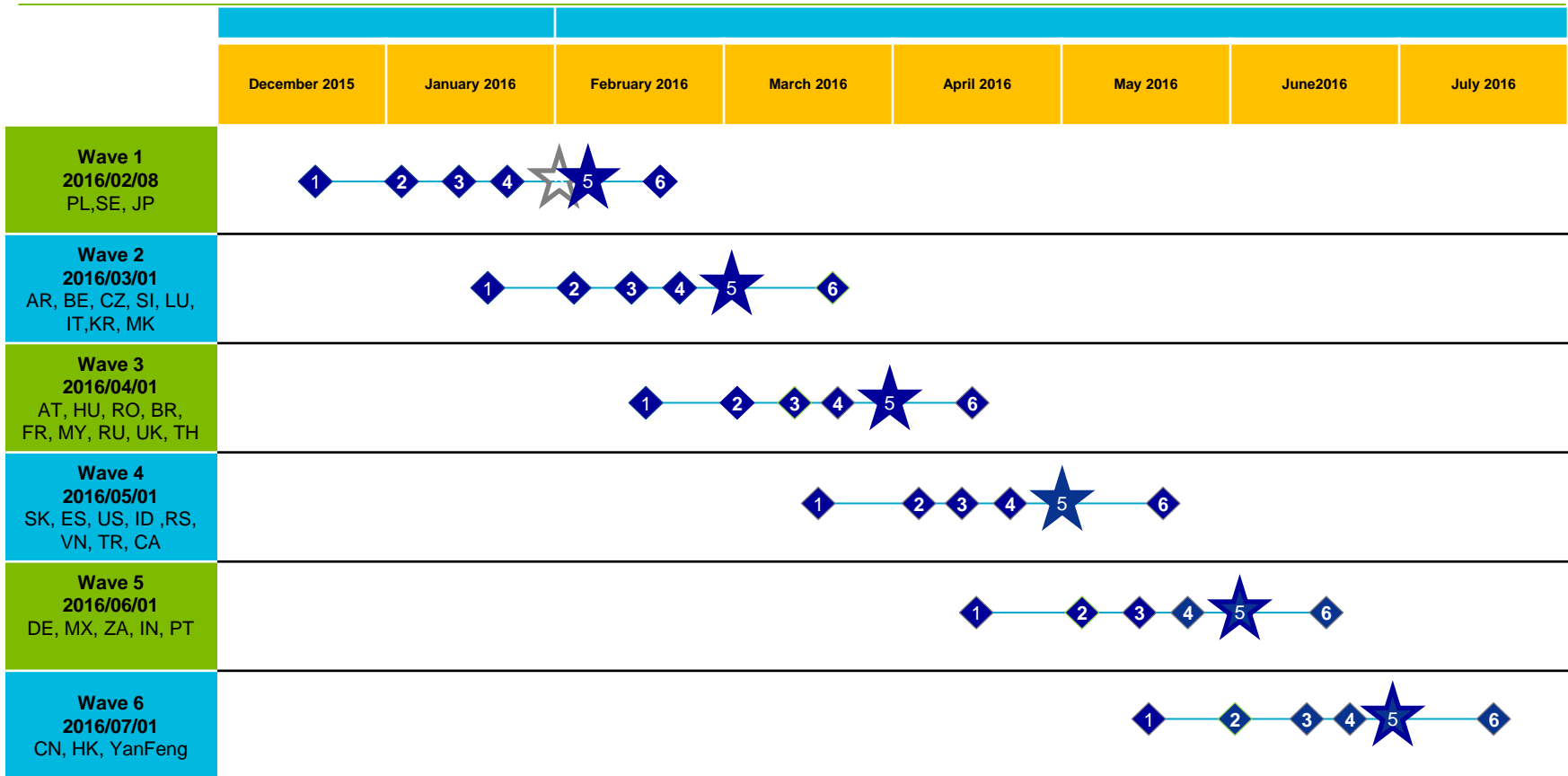
Chosen Approach – Aggressive and Complex (I)



Upgrade & Cloning Treasury Systems: ticking the clock



Trax Cloning Timeline (+/- 800 bank accounts)



- 1 Defining of scope based on LES work stream
- 3 Format and connectivity testing in Trax Adient TEST
- 5 Go Live/start of hypercare
- 2 Completion of bank onboarding documentation (accession agreements & mandates)
- 4 Penny testing in Trax Adient PROD
- 6 End of hypercare/end of wave

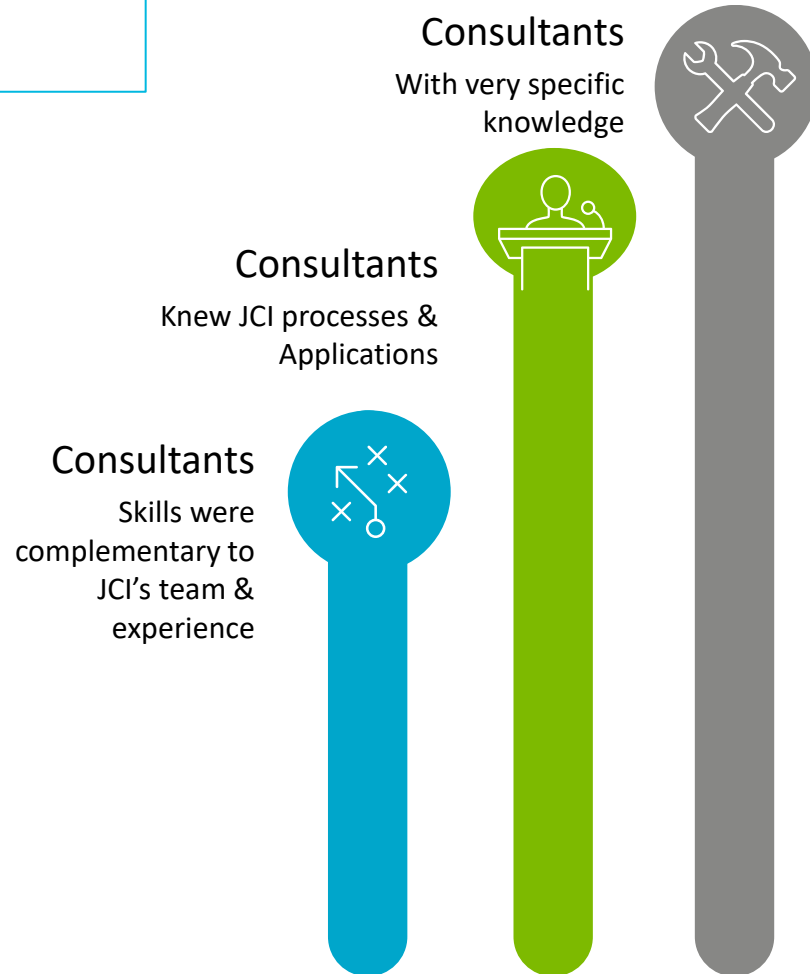
Not Started
 Complete
 On Track
 Off Track
 At Risk

Chosen Approach – Aggressive and Complex (II)

Change management was applied from inception

Future Adient Treasury team was assigned key roles → the team took ownership of its future Treasury Systems and Processes.

Treasury organization realized it could not complete solely the project with own resources.
→ A significant amount of consultants from various firms have been hired to assist the team



Climbing the Everest while you never did it!

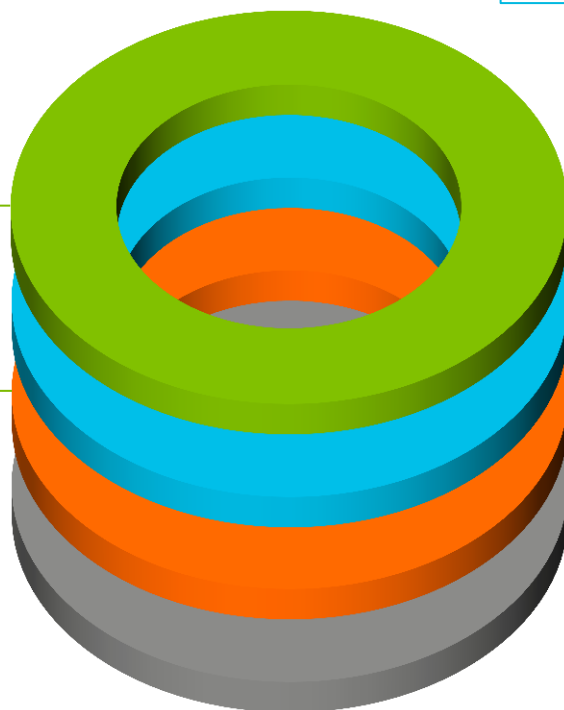
Biggest unknown when divesting such a large part of the business was simply the scale of the tasks and the number of tasks to be done.

Regular Progress Reporting

→ Was essential
Multi-layer reporting (Treasury, IT, Separation Lead Team, Tax...)
Treasury project was 'small', but critical of the broader spin-off activities



Number of Tasks to be done



Other IT Spin-Off Activities

→ We were scrutinized.
Treasury was the 1st department to go live

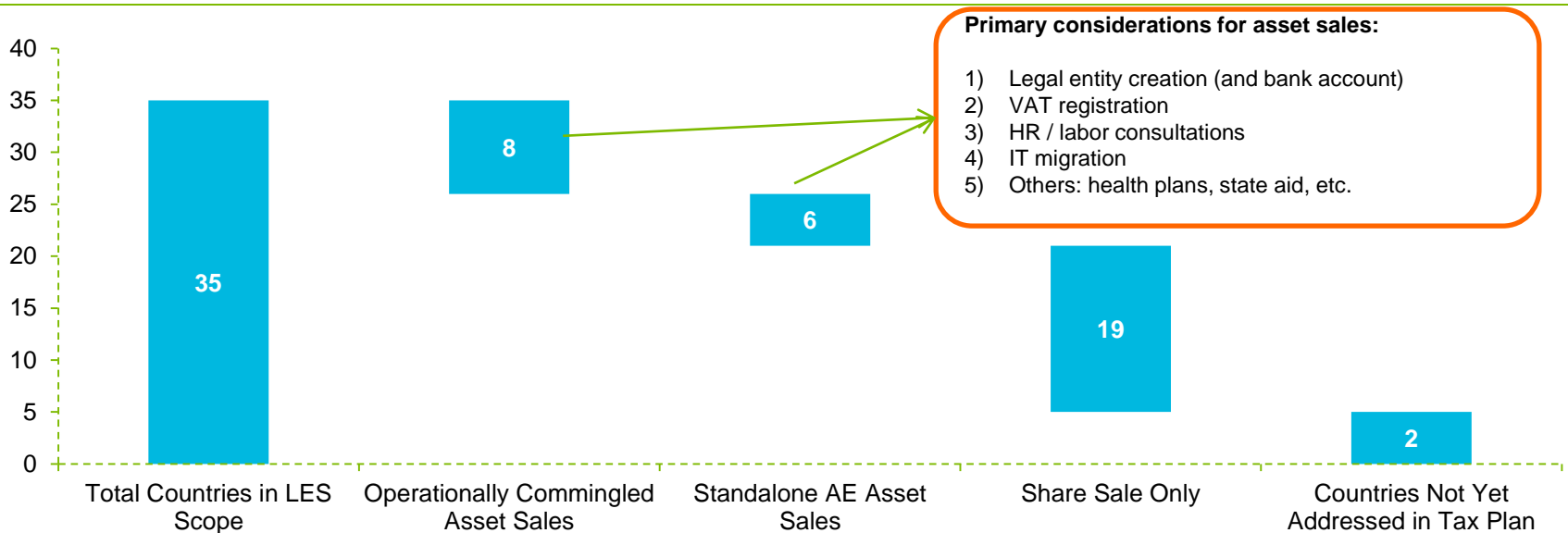
Human Factors

→ Bearing in mind that day-to-day activities had to continue, we did not simply appoint the most experienced people to the project as we had to have the right skills and expertise to manage the daily operations. We did not fully appreciate the difference between project skills and treasury skills

Critical Interdependencies



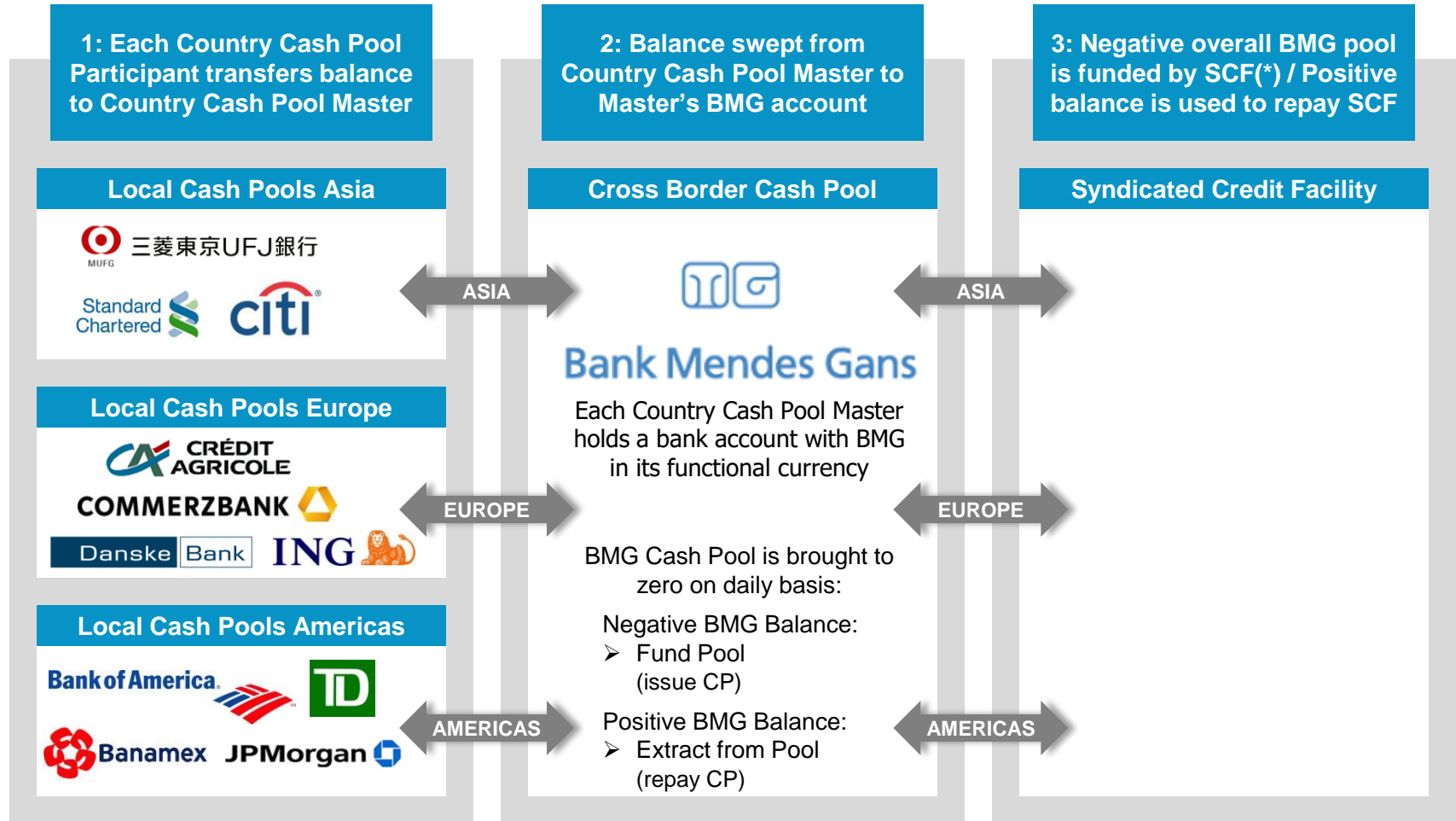
Legal Entity Separation... A moving target



■ 2-ways interdependencies.

- **LES** (Legal Entity Separation) → Treasury had to be ready when the asset deals were ready for a given country to go live
- **Treasury** waiting for **LES** → Treasury was maybe ready from a cash pool restructuring point of view while the LES team was not.
- As a consequence, the project plan has been re-worked a few times in order to match the new time lines.

A new Global Liquidity Management structure for Adient



(*) Syndicated Credit Facility

It is a true success story!



The reasons of a key success story

Allow Project Treasury Staff to be fully dedicated to the project (no dissemination of responsibilities or conflicting priorities)

1

Strong Project Governance Structure (SteerCo, Executive Sponsors, PM's, etc.) with dedicated PMO

2

Strict scope management

3

Stay connected: attend the weekly global status update calls

4

Project Team and Department holiday planning / Anticipate project staffing requirements

5

■ People - "Two strong organizations"

6

Experienced, knowledgeable and committed consultants (PWC, Zanders, O2 Finance, FIS)

7

Cadance (substream status calls & reports) & keep the course (don't get lost in the details)

8

Get the banks onboard early and make sure they are aligned with your priorities

9

The "human" element is critical: communicate, communicate and communicate

?

Plan for resources to handle post-closing items

?

What should we retain from that unique exercise?

■ There are only two variables: money and time

- Unit Testing for Treasury Systems: have “negative” testers in the team

Have your Plan B and even a Plan C on hand

- Uncertainty kills...

Take a buffer into your (internal) resource planning

- Don't move all your strong performers to the Project, the shop still has to run...

Strong ties with senior management at strategic Treasury IT vendors is invaluable

A good PMO is invaluable

- Reports that no-one reads...
- Report status update “smartly”

Tax planning is only final once executed...and that's not even always true

Pick up your phone...nobody reads their e-mails anymore

And the story continued
with Tyco's integration!!

Questions?

