COMMERCIAL

Insights

DYNAMIC DISCOUNTING

Incentivize Your Vendors

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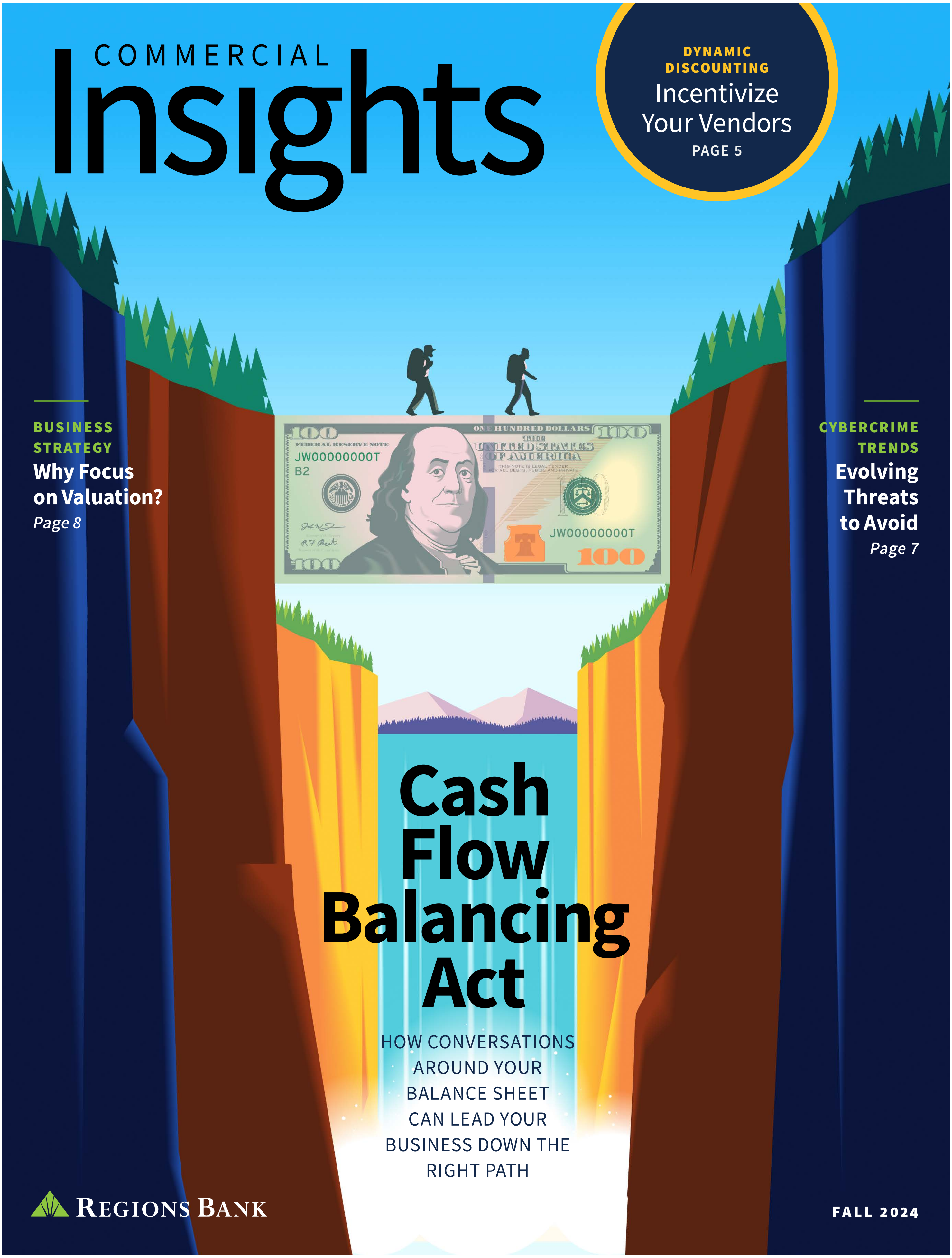

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Cash Flow Balancing Act

HOW CONVERSATIONS AROUND YOUR BALANCE SHEET CAN LEAD YOUR BUSINESS DOWN THE RIGHT PATH

REGIONS BANK

FALL 2024

Cash Flow Is Still King

You've no doubt heard it before—but just because you're familiar with the phrase doesn't mean it's not still true. Cash flow is king.

For all businesses, monitoring and maximizing cash flow is essential. Optimizing it can strengthen your balance sheet, hedge against inflation and reduce your susceptibility to the ups and downs of the market. With that in mind, this new issue of *Commercial Insights* focuses on how you can maximize your company's access to capital—and why you should.

In our cover story, **"Unlock the Potential of Your Balance Sheet," on page 10**, we explore how internal and external conversations around your cash position will help you explore new opportunities and manage whatever challenges pop up along the way. Ongoing discussions about assets, liabilities and debts will help you gain insights, which can lead to better decision-making and strategizing.

Elsewhere, we explore how dynamic discounting can benefit your accounts payable and receivable **("Strengthen Relationships with Dynamic Discounting," page 5)** and how to think about your valuation and capital structures while keeping an eye on growth **("Protecting and Maximizing Business Value," page 8)**.

We hope you enjoy this issue of *Commercial Insights*.

BRIAN WILLMAN
Head of Commercial Banking at Regions Bank

OPTIMIZE CASH FLOW
Scan for cash management guidance and resources

EDITOR: Karri Neal SPECIAL CONTRIBUTORS: Patrick Banks, Barry Bobrow, Gene Bowles, Curtis Brown, Ivana Cojbasic, Will Driver, Greg Jones, Mike Mauldin, Taylor McCutcheon, Alan McKnight, Greg Miles, Ryan Sladek, Ronnie Smith, David Sozio, Brian Tate, Jeffrey A. Taylor, Stephen Tigh

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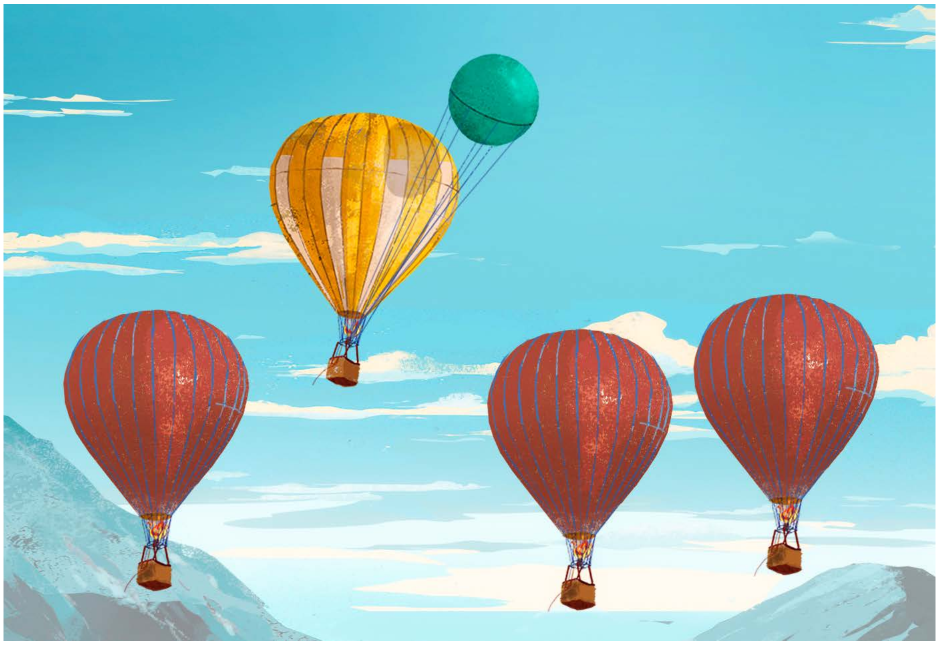
COVER ILLUSTRATION BY JOHN W. TOMAC

ESSENTIAL INSIGHTS FOR YOUR BUSINESS

ILLUSTRATION BY RICHARD BORGE

HEALTHY CASH FLOW. The latest data (Q1 2024) says U.S. corporate net cash flow was **$3.4 trillion**, and cash on hand and in U.S. banks was **$187 billion**. That's up 59% and 95%, respectively, in the past 10 years. "For our clients, our goal is always to more effectively manage their working assets to create an even stronger cash position," says Ronnie Smith, Head of the Corporate Banking Group at Regions Bank.

SOURCES: U.S. BUREAU OF ECONOMIC ANALYSIS/ST. LOUIS FEDERAL RESERVE BANK; U.S. CENSUS BUREAU/ST. LOUIS FEDERAL RESERVE BANK



Develop a 401(k) Match That Works

THE RIGHT MATCH CAN BENEFIT EMPLOYERS AND EMPLOYEES

Offering or increasing a 401(k) match can have many benefits. The right match may increase employee productivity and reduce turnover. "Employees who are less worried about financial issues are more productive at work because they're not stressed out each and every day about saving for retirement," says Ryan Sladek, Head of Institutional Sales at Regions Bank.

Employers' contributions to employees' 401(k) accounts are tax-deductible up to certain limits. Plus, a 401(k) match helps employees save more, and as a result, they can retire before they're at greater risk of experiencing costly health problems. Use these four tips to develop a solid matching program:

1. Set clear goals

A match intended to attract and retain employees may be different from a match focused on lowering company taxes.

2. Consider what your employees want

Don't finalize your goal until you've considered what your employees want in a match. Preferences can vary widely.

3. Educate and communicate

Employee participation can powerfully influence the success of any 401(k) match. Education, communication and personalization can boost results.

4. Use data

Your plan administrator or recordkeeper can provide data and insights to help you better understand what matters to employees. ▲

3 BENEFITS OF YOUR COMMERCIAL CREDIT CARD

By Will Driver, Head of Commercial Card Sales at Regions Bank

A commercial card program is no longer just a piece of plastic in your wallet. Here are things to consider:

1. Front end of buying cycle

Expedite your purchasing process for low-dollar and lower-risk transaction activity online or at the point of sale. For approved transaction categories, this can help reduce the manual efforts tied to your purchase order and invoice-based processes.

2. Middle of buying cycle

Advancements—including virtual card options—allow you to manage employee business travel or ad-hoc expenses more efficiently.

3. Back end of buying cycle

Shift inefficient paper-based invoice payments to an electronic payment method. Leverage virtual cards—with transaction-specific card limits and one-time use designations where appropriate—to pay supplier invoices. ▲

ILLUSTRATION BY EVA VÁZQUEZ; ILLUSTRATION BY TOMASZ WALENTA

STRENGTHEN RELATIONSHIPS WITH DYNAMIC DISCOUNTING

INCENTIVIZING EARLY PAYMENT FOR GOODS AND SERVICES CAN BENEFIT BOTH VENDORS AND PURCHASERS

Providing a small discount in return for early payment of an invoice is not a new idea, but the concept is attracting renewed attention, thanks to technological innovation.

Automated invoicing systems allow suppliers to offer discount terms that change over time. Immediate payment results in the biggest discount, but smaller discounts are still available as time passes. Once the invoice due date arrives, the full payment amount is due.

"The incentive is to pay immediately upon receipt of the invoice—or as close as practical to that time—and take advantage of the discount," says Greg Miles, Manager of Treasury Management Products and Services at Regions Bank.

As these dynamic invoicing systems have emerged, so have real-time payments that settle within seconds.

Breaking down the benefits

Vendors can strengthen their relationships with key customers when they offer dynamic discounting while setting terms that make their payment schedules appealing.

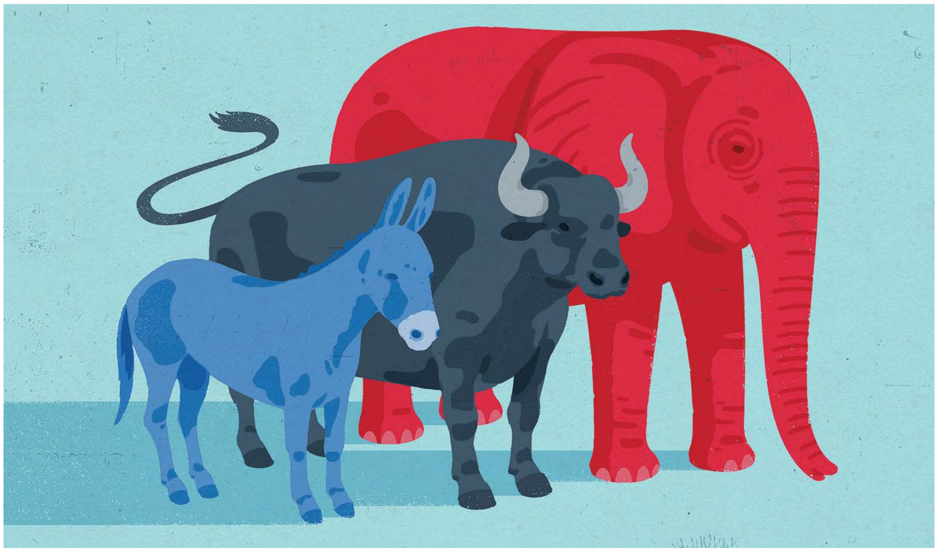
Purchasers can make immediate payment and reduce the cost of goods sold, potentially increasing profitability.

"What the purchaser has to determine is: What are those funds competing for in terms of investment opportunities?" says Miles.

Is Dynamic Discounting Right for Your Business?

FOR PURCHASERS	FOR VENDORS
If one of your vendors has offered you a discount in return for paying invoices early, follow these steps:	If you want to know whether offering dynamic discounts could help your business, follow these steps:
▶ Run the numbers to determine if it makes financial sense to take the discount.	▶ Ask yourself: Is getting a little less revenue worth getting your money faster?
▶ If your numbers are more than a few months old, rerun them against the current interest rate environment.	▶ Check whether your invoicing system supports dynamic discounting.
▶ Factor in the time and money needed to upgrade your payment systems, if necessary.	▶ Weigh the costs of a new invoicing system, if needed, against the potential benefits, including better cash flow.

ILLUSTRATION BY CHAD HAGEN



YOUR WEALTH

Preparing Your Portfolio for Election Season

By Alan McKnight, Chief Investment Officer at Regions Bank

Elections are going to do what they are going to do, and markets are going to react. You want the right exposure to certain assets by having a diversified portfolio that's very much based on your risk tolerance. It's critical to have a plan in place and then stick to the plan, despite the noise that surrounds you. Here are three tips to keep in mind for this November:

Potential tax changes

Changes introduced in the 2017 Tax Cuts and Jobs Act are set to sunset in January 2026. Assuming no action is taken, most personal income tax rates will revert to the level before the act.

The stock market

History suggests equities underperform nonelection years by a couple percentage points and bond markets generally remain about the same. There has also generally been an increase in volatility, especially in the months and weeks before elections.

The bipartisan boost

There has in the past been little correlation between whichever political party controls the White House or Congress and superior economic and market performance. The best results for investors have historically come from a divided government. ▲

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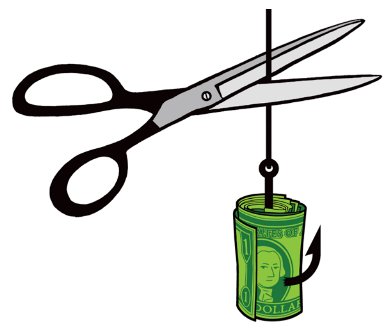
PREVENTING BUSINESS FRAUD

Jeff Taylor, Head of Commercial Fraud Forensics at Regions Bank, is a believer in the adage that your gut doesn't lie: "When it comes to recognizing and preventing business fraud, if something doesn't look right or if it just doesn't feel right, trust your gut."

Some of the most common types of fraud:

- **Business email compromise.** These typically begin with a phishing email, voicemail or text message that entices the potential victim to engage with a criminal.



- **Check fraud.** Criminals either create a counterfeit or alter a check that has been intercepted for their benefit.
- **Mail fraud.** If you put a check in the mail, somewhere between sending it and it being delivered, a criminal intercepts it and uses it dishonestly.
- **Unauthorized ACH debit fraud.** Criminals send an ACH credit transaction to an account as a test, and if successful, then send one for a larger amount.

Fraud is on the rise, so being proactive about detection while educating employees is key to prevention. ▲

ILLUSTRATION BY RICHARD MIA, ILLUSTRATION BY TOMASZ WALENTA

Avoid Evolving Cyber Threats

DISCOVER HOW TO PROTECT YOUR COMPANY'S CASH FROM CYBERATTACKS

When you are managing cash flow, you're likely more focused on accounts receivable and payable rather than on cybersecurity. But cyberthreats can disrupt critical business operations, lead to a loss of business-sensitive or customer-protected info and damage your reputation and brand. All of which could severely disrupt your cash flow.

Consider the actions involved in a funds transfer: sending emails or text messages, logging into a financial website or using a software application. Cybercriminals only need to infiltrate one of these critical points to attack your business.

Fortunately, you and your employees can reduce the risk of cyberthreats. Here's how:

Watch for emerging and evolving threats

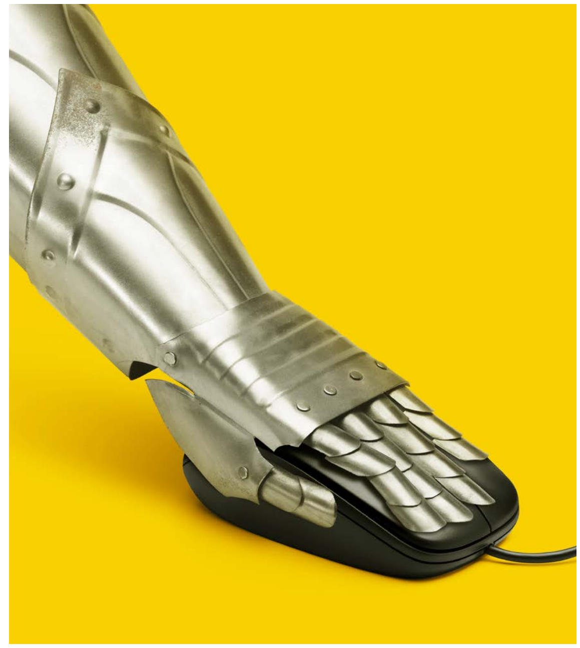
Cybercriminals love to innovate. For example, generative artificial intelligence has made it much easier to write convincing phishing emails and text messages in any language in mere minutes.

Remain vigilant about existing threats

If a tactic works, cybercriminals will keep using it. Threats like phone scams and business email compromise—where criminals use email to commit fraud—have not gone away.

Implement multiple safeguards:

- Whenever possible, set up multiple factors of authentication for accounts.
- Validate transaction requests in a second channel. For example, if an email requests a funds transfer, call or text the sender at a valid number on file to confirm.
- Consider designating one bank account for outgoing payments and keep the balance low. The damage to your business can be limited.
- Give employees the lowest level of access to financial accounts necessary for them to do their jobs.



IVANA COJBASIC

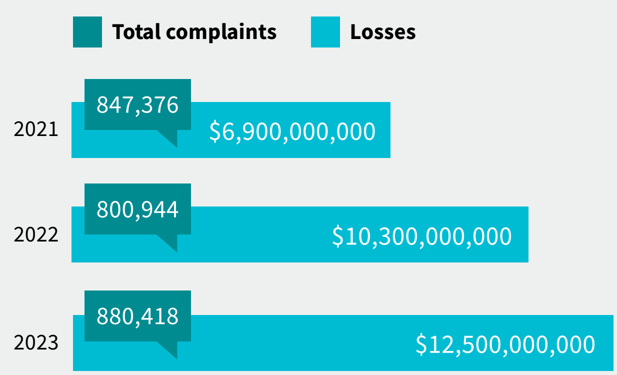
Chief Information Security Officer at Regions Bank

- Use bookmarked financial institution websites to help ensure you are interacting with a legitimate website.
- Consistently educate employees about threats.

The harder you make it for criminals to infiltrate your business, the better you can protect your cash flow—and your company's future.

COMPLAINTS AND LOSSES

Investment and business email compromise (BEC) scams result in the biggest losses. In 2023, investment scams cost a reported $4.57 billion; BEC scams cost $2.95 billion; and tech support scams lost $1.3 billion.



Source: FBI, Internet Crime Report 2023

PHOTO ILLUSTRATION BY MATT CHASE

Protecting and Maximizing Business Value

EVEN IF YOU'RE NOT SELLING YOUR BUSINESS, CONSIDER FOCUSING ON PEAK VALUATION

Prepping a business for sale can be a powerful tool for maximizing a company's value, even when an owner has no interest in selling. The process—and self-assessment—needed to develop an accurate valuation of a business can uncover ways to maximize the value of a company.

"We find that business owners and potential sellers learn a lot about their business by thinking about how a buyer might bring an unbiased and fresh set of eyes into how they're operating the business," says Gene Bowles, Managing Director at BlackArch Partners.

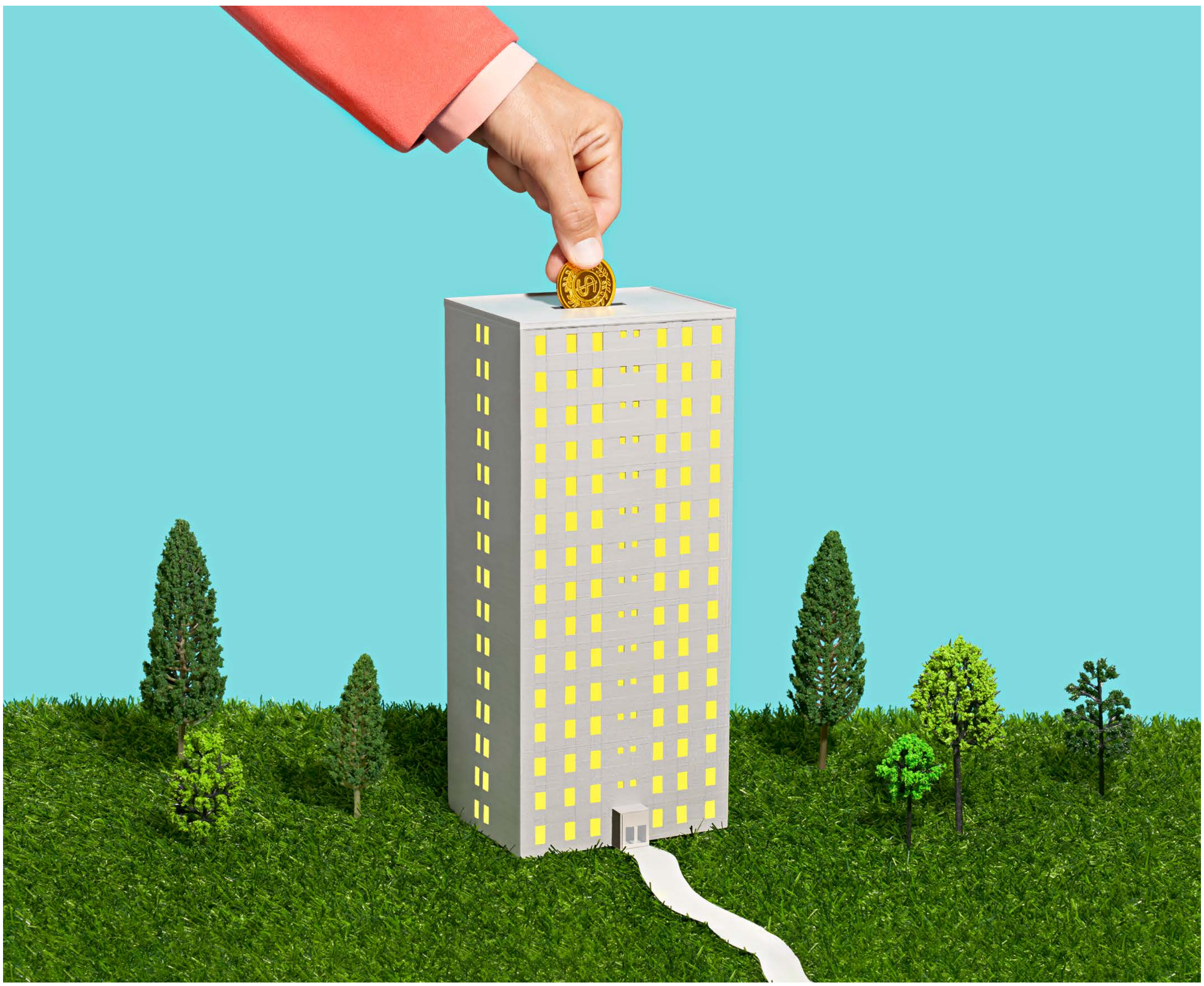


PHOTO BY MARGEAUX WALTER

Maximizing the value of a business means taking a dispassionate view of a company's leadership, customers and operations. Here's how to get started:

- **Review your management structure.** "How deep is the executive team? Do you have people in the right seats to attract buyers?" says Bowles.
- **Consider your customer base.** Relying on a handful of customers for the bulk of revenue is also a risk for buyers. "A self-assessment that reveals a dependence on a handful of customers for revenue can trigger initiatives to diversify a company's client base," says Bowles.
- **Update your systems.** Financial reporting systems should be able to produce timely and accurate information. "If your systems aren't appropriate, then a lot of times you're not getting good information and you're running off potential buyers," says Bowles.
- **Map your ownership timeline.** Clearly defining goals should be the start of any exploration of company valuation. Do you want to de-risk your personal financial profile by bringing in outside debt or equity capital? Do you want to grow the business? Are you thinking about a succession plan and a full exit? What's your timeline?

The benefits of going through the process of achieving a company's maximum valuation are helpful even if it is never put up for sale. Working with an experienced banker skilled at assessing company valuation helps make the process more efficient and comprehensive. The guidance of a banker becomes even more important if an owner decides to sell the company.

How the right capital structure can increase business value

Though it's not well recognized, assuring a company's capital structure is aligned with its strategy and structure is also an important piece in maximizing business value. For example, say that a retail company's business strategy is to increase revenues by expanding the number of stores it operates.

Opening new stores takes a lot of money, and often a business will not have the relationships with their banks that will make expansion possible. "When you are a smaller company, you may have individual relationships with a few banks," says Taylor McCutcheon, Managing Director, Commercial Corporate Finance at Regions Capital Markets. "That could be a one-off equipment loan here and a real estate loan there and a working capital line of credit somewhere else."

There are reasons this approach can inhibit a company from maximizing its valuation. For one, managing multiple banking relationships can drain valuable executive time. Another challenge is that financing a company at the asset level can limit its capacity to fully capture opportunities for growth.

By contrast, financing at the corporate level through a syndication can deliver access to necessary funds and flexibility. "I talk to companies about looking at multi-bank credit facilities and having a coordinated debt financing structure where you have multiple banks—often the same banks you were working with previously—lending into the exact same corporate credit facilities," says McCutcheon. "These syndicated facilities can grow as your business grows."

BARRY BOBROW
Managing Director at Regions Business Capital

TAYLOR McCUTCHEON
Managing Director, Commercial Corporate Finance at Regions Capital Markets

GENE BOWLES
Managing Director at BlackArch Partners

Part of maximizing business value also involves using the optimal financing vehicles for your type of business. For instance, one method banks use to assess whether to loan to a business is by analyzing their operations, revenue, margins and sales forecasts. "You figure out what the probability is they can meet their forecast and generate the cash flow to pay us back," says Barry Bobrow, Managing Director at Regions Business Capital.

Another method of assessing a company's ability to repay a loan is to determine how much money a company could generate if it had to liquidate all its assets. This is what Bobrow and his colleagues do when they are considering providing an asset-based loan.

"Sometimes companies are going through cyclical or secular changes that impact their cash flow. In other cases a company may be going through a strategic change," says Bobrow. "In each of these cases banks may be more willing to lend to them based on that liquidation value than through an analysis of their cash flow. Asset-based loans could prove to be a stable form of financing through periods of change."

When a company seeks to maximize its value, determining the optimal capital structure is a topic worthy of conversation with your bank.

Unlock the Potential of Your **Balance Sheet**

Talking about your company's cash flow with a banker can create opportunities for optimization and growth

There are many tools for assessing your company's performance. Income statements, for example, provide short-term insights about what's fueling growth in accounts receivable and inventory. But to truly understand your company's overall health, nothing compares to a thorough balance sheet assessment.

This is especially true when it comes to gauging your future cash needs and identifying how best to operate in the current economic environment. The reason the balance sheet is both a worthy topic of conversation with your banker and a powerful strategic tool is that it provides such a comprehensive view of your company's cash position.

"Cash is the lifeblood of every business regardless of what the size of that business is," says Ronnie Smith, Head of the Corporate Banking Group at Regions Bank. "Cash makes payroll. Cash bridges the gap to a stronger economy where opportunities exist. It is what helps us continue to function regardless of the pressures of our industry."

ILLUSTRATIONS BY JOHN W. TOMAC

A comprehensive view of assets and debts

The balance sheet delivers a valuable view of a company's health, challenges and opportunities because it shows the true cash position and the velocity of cash that runs through an organization.

"The more that we understand the relationship between cash, accounts receivable, accounts payable and inventory, the more we're going to understand that individual business," Smith says. "We are talking with our clients about how to efficiently and effectively manage working assets along with accounts payable to create a stronger cash flow and ultimately a stronger cash position."

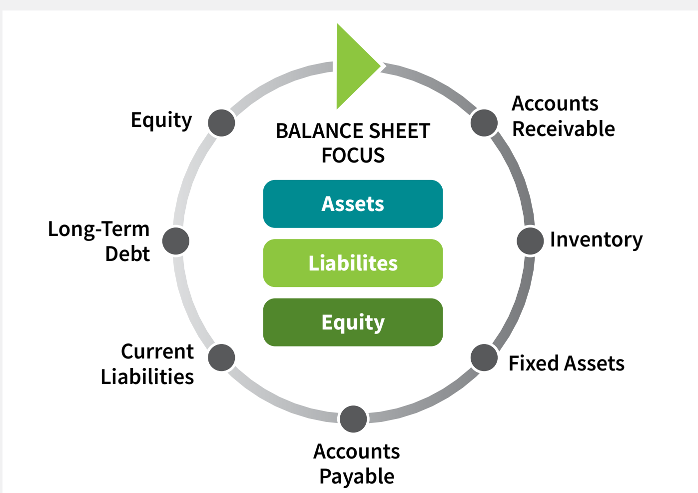
The balance sheet can provide the information necessary to make impactful strategic decisions or raise warning signs. Indeed, risks to a business often rise when cash levels are low. But low cash levels can also be indicative of progress. "You must really dig into the why. The answer to that why is found on your balance sheet and with your top-line revenue number," says Smith.

For example, if the economy is booming, then you're going to have to use cash to support the growth of receivables and inventory. Conversely, it could be a slowdown in revenue where you're not producing as much. Or it could be that your clients are not paying you as quickly.

RONNIE SMITH
Head of the Corporate Banking Group at Regions Bank

Assessing Your **Balance Sheet Cycle**

When it comes to conversations around your balance sheet, it pays to focus on three key areas: assets, liabilities and equity. But you can also drill down into the cycle of cash flow that keeps your business running.



Turning words into action

Conversations that center on the balance sheet reveal opportunities for actions to improve your cash position and your business. For instance, reducing inventory turn by a few days moves more into accounts receivable, creating cash.

Similarly, extending accounts payable by a single day can also put more cash on the balance sheet. If a company is not taking full advantage of the terms that a supplier is providing, then they are using cash, not creating cash. If a business can extend payables for just one more day, that provides more cash on the balance sheet.

"That's how we think about the importance of cash and cash management and the solutions that we look for, whether it's integrated payables and receivables, or whether that's being able to sweep excess dollars off the balance sheet for returns on idle cash," Smith says. "It really gets back to efficient and effective cash flow management."

An uncertain economy and its impacts on the balance sheet

What are business owners likely to see when they look at their balance sheets today? The answer is mixed and depends on the industry a company is in. High inflation over the past few years has driven prices and company revenues up. However, recent declines in inflation raise new questions for business owners. "How do I manage in a slower growth economy?" Smith says.

Companies dependent on inventory and accustomed to high demand may require operational changes as demand wanes, and potentially need to decrease inventory levels. "There's going to be a slower burn of bringing inventory levels back down to acceptable spots, which in turn will use cash," Smith says. "When you get cash-strapped within a company, it becomes a big pressure point."

Preparing a balance sheet to take advantage of new opportunities

Managing falling inflation is less of a challenge for companies in certain industries because demand for their products and services is skyrocketing. For

instance, companies involved with building public infrastructure like highways, bridges and electric grids are in demand. In the American Society of Civil Engineers' most recent infrastructure report card, the U.S. received an overall grade of C-. Large investments made possible by the Bipartisan Infrastructure Law and the Inflation Reduction Act seek to bolster America's aging infrastructure.

Companies with ample demand have different challenges—but these challenges are reflected on the balance sheet. Indeed, the ability to take advantage of new opportunities is not a given. It depends on a company's balance sheet health.

"You can only do what you have the equity to support, and that's the other side of the balance sheet," Smith says. "If you have built strong equity in your business over the years, then the opportunity to access funds becomes much easier through borrowing because you have a strong balance sheet and equity position. The most successful businesses pay close attention to their balance sheet and management of their assets through multiple economic cycles."

When it comes to conversations with a client, says Smith, "Our goal is to provide solutions that provide enough cash flow—cash improvement—that the company is able to self-finance these wonderful opportunities in front of them today."

Making informed decisions, which can help you navigate a challenging economic environment or take advantage of new opportunities, is far more likely when they are guided by insightful balance sheet conversations with your banker. Conversations should be routine so that your balance sheet is strong enough for any scenario.

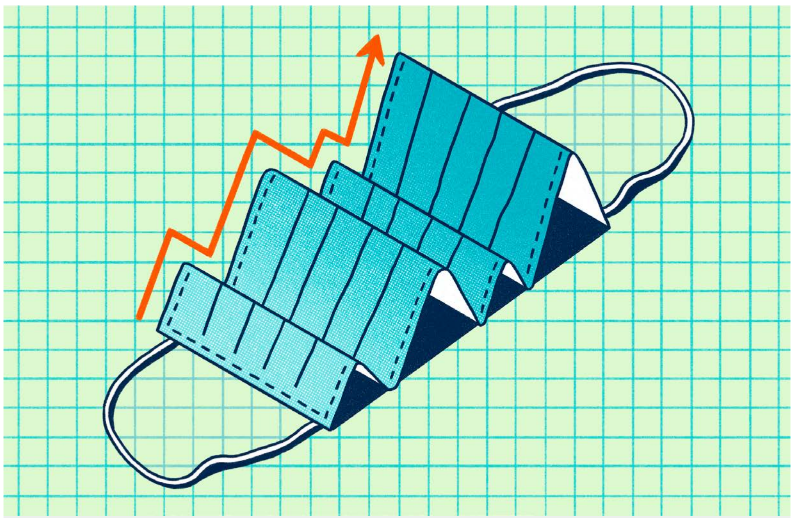
We're here to help

You know your business better than anybody else. Surround yourself with financial managers who can extract information from you and use it to provide solutions to better your company. Your trusted local banker with deep knowledge of your industry can guide you through a cash-flow centric conversation to identify opportunities to help position you for long-term success. ▲

COMMERCIAL CASH MANAGEMENT
Scan with your phone for strategies to manage cash flow

Business Strategy by Industry

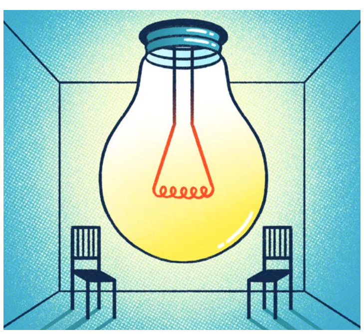
HERE'S WHAT OUR EXPERIENCED PROFESSIONALS ARE SAYING



HEALTH CARE AND HEALTH CARE REAL ESTATE

"If a practice can align with a larger hospital or health system, or merge with another practice, there could be a synergistic effect of reducing costs on a combined basis."

—**Mike Mauldin**
Health Care Group Head



ENERGY AND NATURAL RESOURCES

"The U.S. is expected to experience unprecedented electric load growth by roughly $630 billion in investments for energy-intensive manufacturing facilities and data centers. This growth, coupled with tax incentives provided by recent legislation, has resulted in over $280 billion of announced renewable energy investments."

—**Brian Tate**
Energy and Natural Resources Group Head

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TECHNOLOGY, MEDIA AND COMMUNICATIONS

"What I think will be interesting to observe in the future is the impact on the cost-of-living differential between the tech hubs in the Southeast and Silicon Valley, because it's pretty pronounced, and I think this is part of what's driving net inflow and outflow of tech workers. It'll be interesting to see how it changes the dynamics."

—**David Sozio**
Technology, Media and Communications Group Head

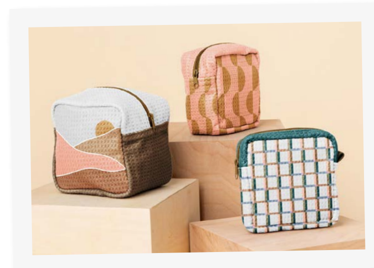
DEFENSE, AEROSPACE AND GOVERNMENT

"Warfare has broadened, but there's a very limited amount of capital you can spend to address that expanded range of threats. A major theme you see within the U.S. military is finding a way to be as efficient as possible with that capital. That means innovating in multiple directions."

—**Greg Jones**
Defense, Aerospace and Government Services Group Head

ILLUSTRATIONS BY JOSIE NORTON

The Kolder and Regions team (left to right): Curtis Brown, Commercial Relationship Manager; Patrick Banks, Treasury Management Officer; Jim Martin, CEO; Karen House, CFO; and Stephen Tigh, Commercial Banking Leader



PHOTOS COURTESY OF KOLDER, INC.

Cash Flow Conversations: KOLDER, INC.

A RESILIENT AND FORWARD-LOOKING BUSINESS NAVIGATES CHANGING TIDES

On vacation in Hawaii, Charlie Meyer noticed a surfer cutting up a wetsuit and selling pieces of the stretchy material to beachgoers. The practice appears to have its origins in Australia, where neoprene can holders—or koozies—became popular with the surfing community.

Meyer returned to his home in Edinburg, Texas, and successfully founded Kolder, Inc. in 1982. In 2007, Kolder acquired Numo Manufacturing, expanding its offerings and reach. In 2019, Meyer stepped back from the day-to-day operations of the business, leaving son-in-law Jim Martin and son Ryan Meyer in charge.

Cash flow conundrums

COVID-19 brought challenges. With corporate events the primary driver for the promotional items industry, sales dropped drastically as stay-at-home orders were issued. Martin shifted Kolder's production plants to manufacture personal protective equipment through the height of the pandemic,which kept the company afloat.

Stephen Tigh, Regions Commercial Banking Leader in Dallas, reached out to Martin in 2021 while he was rebuilding Kolder. At the time, Martin said, "We're not bankable right now," recognizing the company didn't have the balance sheet necessary for traditional lending.

A few months later, Curtis Brown, Commercial Relationship Manager at Regions, provided the business with a commercial card to support working capital as Martin shored up the business. Returning to its roots, Kolder bounced back and was soon able to establish a line of credit for added working capital support.

A cyclical business by nature, Kolder's peak sales typically occur late spring through early fall, so managing cash flow throughout the year is key. The company operates in several locations and employs more than 1,200 people in the United States and Mexico. Payroll is weekly.

"Monitoring payables from employee payroll to vendor expenses, Kolder's leadership understands where they need to borrow and stretch to keep cash flow in the black," says Tigh.

Financing a succession plan

In January 2024, Charlie Meyer completed his retirement process and sold his remaining portion of the business to his son and son-in-law. A transfer can create additional financing needs as the new owners buy out the previous ones. Regions expanded the existing line of credit to facilitate the buyout.

"Access to working capital and the personal relationships at Regions have allowed Kolder to navigate deep waters," Martin says. ▲

REGIONS
PRIVATE WEALTH MANAGEMENT

1900 Fifth Avenue North
Birmingham, AL 35203