

“FAST BUILD” – An approach to implement Group Treasury & Cash Pooling processes from greenfield in Garofalo Health Care

EXECUTIVE SUMMARY

Purpose of this document is to share GHC experience in implementing Group Treasury & Cash Pooling Processes from Greenfield.

After completing a very successful IPO, GHC group had the need to finalize an effective support to the treasury process, and to set up an upward Cash Pooling to reduce overall cost of debt and achieve an optimal cash management across the Group. This need led to identify a *tier 1*, industry standard solution as the platform to go: Piteco Evolution. The whole process soon turned out to have some innovation traits that are worth telling about.

In facts, striving to address business needs, respond to users' requests, dealing with budget constraints, and managing geographic complexity of the Group itself soon led to another need on the Holding side: to think and setup a project that could be successful despite all of this complexity, and even more, that could leverage it to crave new opportunities.

That is what happened within a six months span in 2019 and led to the development of what we have called “Fast Build Project” of Piteco Evolution.

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1. CONTEXT

The Group has some peculiarities which make for the context to be taken in serious consideration when you approach a group-wide project, especially on such a critical area as Finance is.

So, the following distinctive points strongly steered the Central Team decisions as for the platform to select, and with regards to some specific complexities that the project had to address with “simple” but effective solutions:

- a. **Geographic complexity:** GHC Group has subsidiaries in 7 Italian regions, from the center to the north of the Country. Moreover, only one of the subsidiaries is in a major Town (Bologna) while most of the others are not an easy reach under a logistic point of view.
- b. **Size complexity:** While the Group is positioned in the Mid Cap Market, subsidiaries have quite different sizes, spanning from small (about 7-10€ Millions turnover) to medium-sized (about 50€ Millions turnover);
- c. **Cardinality complexity:** given the subsidiaries sizes as of the point above, it is easy to understand that 220€ Millions of consolidated revenues make for a quite important number of companies. There are in facts 22 companies in the Group, at the time of this writing.
- d. **Sector diversification complexity:** one of the key success factors of GHC M&A strategy has always been sector diversification. The Group business covers all sectors in Healthcare Industry. So, companies are quite different, not only for their size, but even and possibly mostly with regards to their value chain and their organization.
- e. **M&A Complexity:** In 2019, 6 new companies joined the Group, 3 of which after the project initial setup, so this proved the designed process resilient to aggressive M&A roadmap.
- f. **Key Users complexity:** none of the Group companies is big enough to have personnel exclusively dedicated to Finance/Treasury. Most of our key users are within administration area, and they spend part of their working hours to manage treasury needs, therefore it was also necessary to share a standard treasury process with operational suggestions on the organization of work in the treasury area.
- g. **Group Homebanking platform:** further complexity was the creation of a single Homebanking platform with a single bank owner. A plafond of users (configurator, operating user and authorized user) has been set for each structure. Today all the structures are connected daily to the multi-bank channel and can access from their Piteco Evolution window and manage all their interbank relationships, both

incoming and outgoing. A pyramid structure was also created that connects all users to the Master user.

2. BUSINESS NEEDS

All the peculiarities described above needed to be taken into account and reconciled with pure business needs that the new platform had to meet from the Holding standpoint:

- a. **Coverage:** the platform had to be able to cover treasury process such as collections and payments, and it had to be able to effectively support Cash Pooling
- b. **Integration:** the platform needed to be integrated with the ERP system as seamlessly as possible, and in the most secure way. Integration is about receiving bills to pay from the ERP and give it back the proper accounting records, as well as receiving collection information from the bank and write the proper accounting records to the ERP. Integration is a key point, and is covered more widely later in this paper
- c. **Security:** one the most challenging requirements of Finance was that no user could create any “manual entry” in files that would be uploaded on Home Banking for payments. Moreover, as we will see in a moment, the architecture required communication between two systems on separate networks, so security in internet communication was a top risk to be addressed in the most possible effective way
- d. **Real time information:** The Holding had to be able to verify in real time Group's liquidity.
- e. **Scalability:** as for vertical scalability, the platform has to grow as the “Buy and Build” Strategy is rolled out and new companies join the Group. At the same time, horizontal scalability has to be provided, and when new functions become necessary (i.e. managing financings, mortgage cost, IFRS 16 principles, and so on), the platform must have a standard, best practices compliant and out of the box solutions that can be easily deployed
- f. **Cost:** GHC has lots of initiatives in its pipeline, and even with different priorities, they all need to be planned and executed. But since some of them are critical for business, or for business support, they have carried out in a limited amount of time, so it is clear how budget is a very strong constraint. So not only the new treasury platform had to be the most cost-effective possible, but this cost had to be low
- g. **Execution speed:** finally, the requirement which actually inspired the title of this paper: roll out had to be fast, because pull all subsidiaries into the perimeter was crucial from setting Cash Pooling up
- h. **Cloud Adoption:** as we have seen, cloud adoption is the backbone of IT Strategy in GHC Group. So, it was a defined requirement that the new platform had to be a Cloud platform. Given the context and the Group's size, Cloud implementation carries some important benefits: it makes project faster (no

need of the lead time to set up the infrastructure), it is more accessible from the internet (so, it is “smart working friendly”), it does not requires CAPEX and typically has marginally decreasing OPEX. But perhaps the most important good is that Cloud implementations are less prone to be “developed” and bent to micro requests, so if a solution is a standard, it will help fixing and standardizing current processes

3. SOLUTIONS

Given the above, Central Team had to find the most effective solutions that covered all the requirements above, in the challenging context described in chapter 2.

The following process was then setup and implemented:

1. A detailed procedure for Treasury Process was drafted, which summarized all the process macro requirements that had to be addressed. This Procedure was formally adopted by the subsidiaries, ensuring a consistent process across the Group, which is a key element for “Fast Build” approach
2. Functional requirements were evaluated and compared against two Platforms, one of those was Piteco Evolution
3. Technical requirements were added to the evaluation, taking into account elements such: vendor ability to execute (given the context, see chapter 2), cloud vs. on premise architecture, interfaces readiness and complexity, implementation needs and timings, product maturity, product penetration in comparable or higher market tiers
4. All requirements were weighted and evaluated, and Piteco Evolution was chosen as the go-to solution for the Group

Here are the main reasons why.

3.1. ARCHITECTURE

One of the key stones of GHC Information Technology strategy and roadmap is to leverage modern cloud computing capabilities and offerings, in order to reduce IT Total Cost of Ownership (TCO). Group’s business is very IT intensive of course, yet its size do not justify high IT spending in proprietary and complex infrastructure.

Piteco Evolution was the more obvious choice because it is a SAAS platform (Software As A Service), and this gave the Company some specific advantages, apart from reducing the TCO. Moreover, this came after a quite successful Tagetik CCH adoption, to support consolidated financial statement, which is also a SAAS platform, and that gave great benefits in return of the small investments.

So, as a SAAS version of a very mature product, with wide international adoption base, Piteco Evolution carried the following benefits which were functional to address some of the requirements and of the complexities stated in chapter 2 and 3.

1. Cloud SAAS implementation of Piteco contains the out of the box most of the solutions that are standard in the market and that were identified as Group's needs as well: so there were no need for mid or long term implementations, allowing for a “Fast” rollout across the companies.
2. As a SAAS platform, Piteco Evolution did not require any infrastructure setup, allowing to speed up the whole process. Again, this element was crucial to the Fast Build
3. As a SAAS platform, Piteco Evolution ensures the highest scalability levels in the shortest time possible. In facts, whenever we need to scale up vertically, i.e. when a new company is acquired, we can easily activate new users, inherit all central setup, and lastly plan and execute a fast rollout with a very limited effort and marginally decreasing costs (see later in the document for an explanation of this). Moreover, cloud infrastructure gives us the ability to add endpoints with no impact on network configuration (i.e. new VPNs). When it comes to the need of scale up horizontally, the product is mature enough to provide us with all the capabilities we may need, with just new customizations but with no need to code.

3.2. INTERFACES

As stated above, one of the most important requirements for the project was to achieve a secure process, with the highest automation level possible, and with the less need/faculty for the users to manually create or modify records.

This implies the orchestration of three services/platforms:

1. Piteco Evolution for managing treasury process
2. ERP system for managing account payables, account receivables and cash accounting
3. Bank's client application (installed on premise) to manage secure communication with the Home Banking service

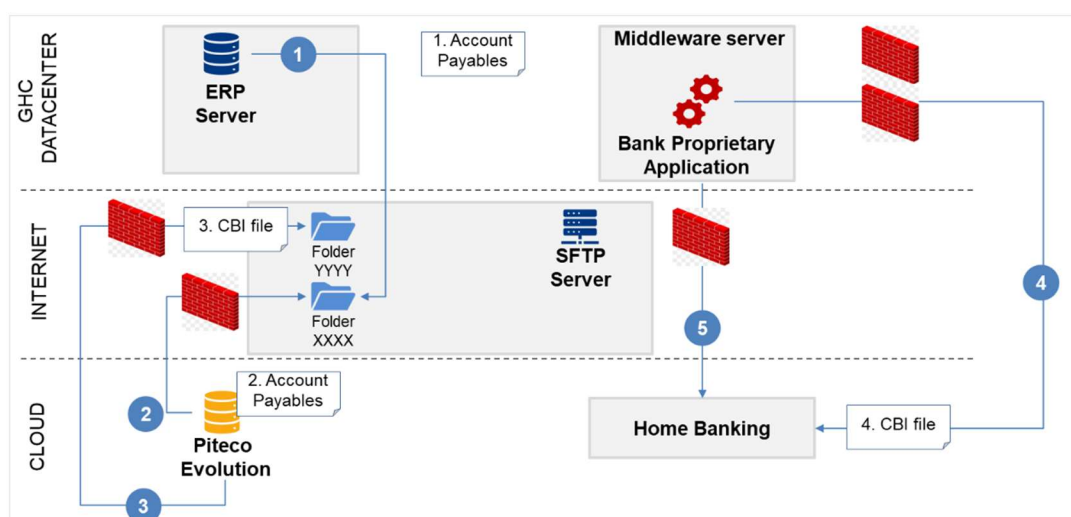
So, we needed to design and execute a robust, comprehensive and easy to maintain interface between these three platforms, going from GHC Data Center to Piteco Cloud and to Home Banking, and backwards.

To do this, we setup a middleware Secure FTP server within our network and placed it in a DMZ safe area. This is the scheme of how the interface works in the account payables / payment / accounting record.

In the picture above there are two key elements:

1. Users only use systems to create and modify data, and the execution of their activity is decoupled from its results, in terms of records that are created and where they are moved
2. Communication outside and inside the SFTP server is only allowed from two IP Addresses, via firewall policies: the one belonging to the Middleware Orchestration Server inside GHC Datacenter, and the one belonging to Piteco EVO on the Cloud (DMZ)

The same interface is used to write accounting records from Piteco to Ad Hoc Enterprise, whenever a payment or a collection is processed, or when the Bank Statement is retrieved by the Bank and loaded in Piteco. The same interface is used to load the customer register every morning from the ERP to Piteco Evolution. The collection from the customer to the bank transitory account is recorded from home banking. The collections are transferred to the specific customer items reconciliation form.



- 1 ERP sends account payable bills to SFTP server, in a specific folder different for any company
- 2 Piteco gets the bill from SFTP Server, reading that specific folder
- 3 After treasury process is completed on Piteco, it sends a CBI file to SFTP Server, in another specific folder
- 4 A scheduled SFTP job gets all CBI files created by Piteco from SFTP Server, and moves them to Bank Application Folders
- 5 Bank Application, using its scheduler, sends the CBI files to Home Banking Platform

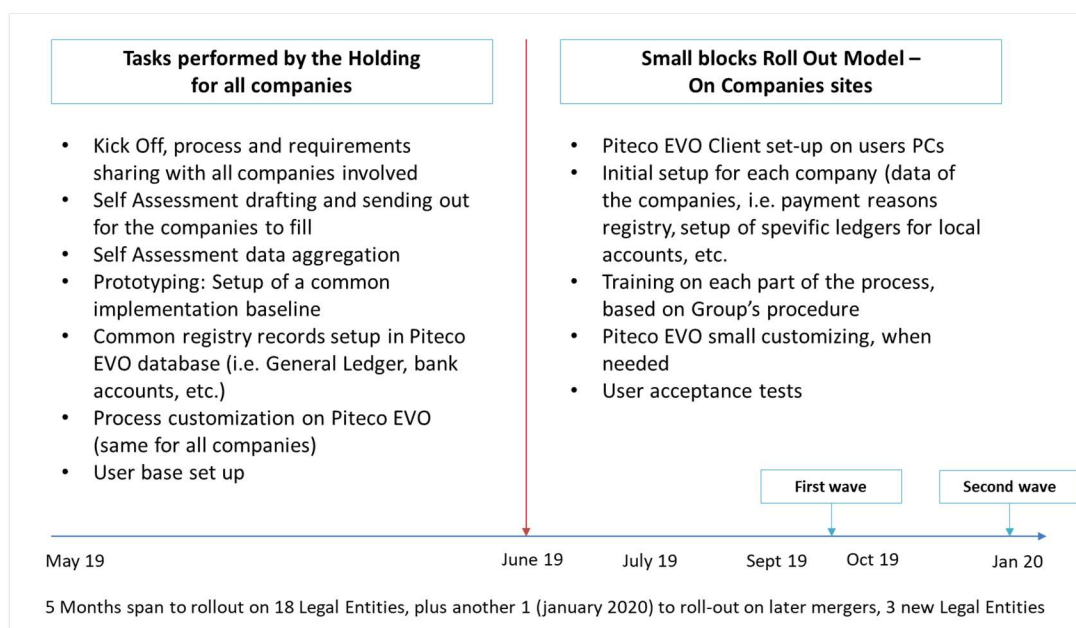
3.3. IMPLEMENTATION MODEL AND ROADMAP

Given the infrastructure described above, some important choices were made before the project was actually started:

1. Identification and appointment of a “Owner Bank” for all the movements (one of Italy’s major banks)

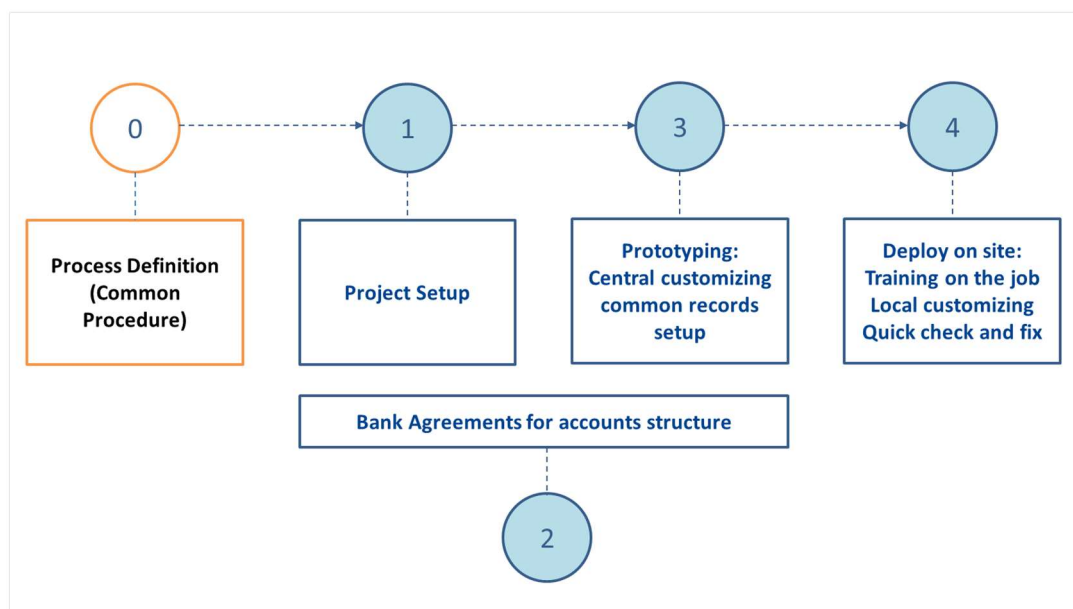
2. All the companies were asked to open an account with the Bank, and all the accounts were linked to the Holding “Master” account. Thus, a single installation of Bank’s proprietary client application, linked to GHC account, can provide services for all the companies
3. All the companies were provided with a questionnaire to fill, which provide as a data base for initial setting of Piteco Evolution, which was carried out centrally
4. Configuration records for each company were collected and treated centrally (i.e. bank accounts type and list, types of movements, association with GL accounts)
5. Setup of a “Prototype” to model all the subsequent customization upon
6. Predefined “slots” of three days were defined for each company, planned and executed

So, Fast Build of Piteco Evolution was planned and executed as follows:



3.4. SUMMARY OF FAST BUILD PROCESS

To summarize the Fast Build Process was designed and carried out as follows:



4. RESULTS

As for the Project initial objectives, some important results have been achieved, which are now a asset for the whole Group, and have allowed GHC to position in quite high tier in the industry for what concerns Process automation, security, best practices in Finance area.

1. **Speed:** the project was actually “Fast”: 19 legal entities were rolled out within less than 5 months from project kick-off (May to October). Plus, other 3 mergers which entered the scope after the project launch were rolled out at the end of January
2. **Low external costs, internal development:** leveraging Cloud architecture and fast build process described above, the project had modest costs, while leveraging internal competencies allowed for insourcing of several setup activities
3. **Users competencies and focus growth:** the project established the treasury process as a standard within the companies. So, users are now more focused and have achieved new competencies
4. **Detailed comprehension of local context:** the preliminary assessment phase gave Central Team the opportunity to assess all the local bank accounts, and to suggest the proper actions to reduce them to the ones necessary. This allowed, moreover, to achieve savings at subsidiaries level in bank accounts fees. One of the biggest successes for the central team was the immediate availability of the information that Piteco Evolution is able to offer for all GHC perimeter (liquidity, bank commissions, credit line, credit lines used). The Central Treasury uses this information daily to work with all the credit institutions to always obtain the best results. Immediate availability of information means greater possibility for Management to make the best decision in a shorter time.
5. **Cash Pooling enabling:** last but not least, the project enabled the Group to effectively set up an upward Cash Pooling process. This of course allows optimal cash management at a Group level and helps reducing debt cost. A centralized treasury contract has been created for the entire group. The Piteco EVO module for cash pooling management is able to automatically manage all intercompany

movements on a daily basis. It is possible to calculate the notional interests of pooling and analyze all the payables and credits from cash pooling for each company of the Group.

5. LESSON LEARNT

This successful experience gave GHC the opportunity to learn some important lessons, and it is an experience that will be leveraged in future IT Applications development:

1. When a strong business focus is critical, we acknowledged that choosing a mature, industry leader product is a key element for a successful project. In facts, market leaders bring not only good functionalities, but also the ability to leverage the scale, and benefit from other Client's experiences (new functions, best practices, ability to execute in complex environments, ability to maintain effectively)
2. Standard operations: similarly, to SAP "golden rules" which represent the experience of many years of processes support across all the industries, Piteco EVO carries standard functions to support Treasury process and users end to end. It provides "best practices" out of the box, rendering new developments not necessary, and helping companies conform their processes to those best practices
3. Making prototypes: when a process can be designed at Group level so that it will not change during its local deploy, making a prototype and testing it allows for an easy and fast deploy on the companies. Also, it ensures that the process stays consistent across the Group.
4. Internal Team: Company's Team must actively participate to the project, in order to insource some critical project activities and to share competencies across the Group
5. Clear Project Purpose & Prototype to implement: setting up clear objectives (in our case, well defined in the process and in Cash Pooling need) helps the Sponsor and the Management to steer the project without significant deviations. This is further supported by prototyping: once the prototype is consistent, and a precise schedule for local rollouts is defined, the plan can be executed without further negotiations between the Holding and the subsidiaries

6. KEY SUCCESS FACTORS

1. Mature Product: the platform should be standard in the industry, to ensure stability, wide system integrators support and thus ability to execute, and to leverage the scale in terms of functionalities and best practices
2. Prototype and unique process: Defining a process (and a procedure) and having the subsidiaries adopting it formally enables the definition of a unique prototype. Once the prototype has been tested and macro-central requirements are met, it will be deployed fast and with no need of further significant customization
3. Consistent and unique Process: requirements should stay consistent across the companies, so that once they have proven good, they can be adopted with just minor adjustment, and the majority of customization can be reused
4. Cloud architecture: without the need to setup on premises infrastructure, companies are free from the duty of managing the system, thus less stakeholders can have troubles from the project. Also, adding users and functions to a cloud platform allows for marginally decreasing costs, so that when a company/group grows it can efficiently leverage scale economy, drastically reducing break-even.

