

**PCS Group Forum**  
**March 16, 2022**

**Gary Bender**

Founder & CEO - The CFO Solution

[www.thecfosolution.org](http://www.thecfosolution.org)

gbender@thecfosolution.org

215.421.8291

# March 16th Agenda

- Introduce The CFO Solution/PCS Forum
- Today's first session  
    Managing Real Estate Strategically
- Second session-  
    How to reduce energy usage and how to  
    reduce the cost you pay for energy!

# What is the CFO Solution?

- We share best practices and best processes from peer CFOs.
- We don't know everything and our ideas are not always right for your situation but we believe it is helpful to share what your peers are doing.

You decide if you should consider-if we can help, just ask.

# What we don't do (and do)

- We don't charge for our services.
- We don't consult or sell you anything.
- We don't compromise or embarrass you.
  
- We will take your call, discuss our ideas.
- We will introduce you to our SME expert and they will continue the conversation.

# Quick review

- We have recently covered:
  - Running Finance like a profit center!
  - Reducing taxes-retro and going forward!
  - Process for human capital optimization
  - Reduce costs using contingency experts
- Thanks for your comments and success reports!
- Update-want to borrow against ERTC?  
Call me asap

# Manage RE Strategically

## Building ownership case

- Assess every location that you have

If the location is “perfect” then preferably you should own it OR at least have very long term lease with beneficial terms

If the location is perfect-whether for retail traffic, right size/ right configuration, employee or customer location

Why would you continue to lease ST? Landlord can sell it out from under you OR hold you hostage and jack up lease rates.

# Considering a new location?

- Thinking of a new branch or sales office?
- Odds of success? Many unknowns exist.
- Minimize risk-consider a 3 year lease with a break option. Might cost you 3 months of penalty rent in worst case but could save you 24 months of a bad decision.
- Best practice is to get an advisor who represents you-don't do it yourself.

# Managing leases “Strategically”

- Typical situation

Your lease expires in 6 months, broker might think about sending you a renewal proposal in about 3 months

At that point, broker has total control because you have no options-even in a normal market you need to manage R E constantly not just every renewal



# Lease assessment

- Get an advisor

  - Review current lease (with R E expert)

  - Review market rents, needed sq ft, amenities, look at deals that are alternatives

  - There are always options if you start a year earlier!

  - Advisor does the work. Even if you stay, your advisor gets paid by the landlord!

# How to create value

- Think like the banker and the building owner-not the tenant!
- Building owner wants high % of multi year leases and high % of renewal clients
- Longer remaining lease years really favor their financing because the value is much higher Simple arithmetic
- Assumed turnover risk and vacancy lowers value a lot

# How to “get” value?

- Offer a longer lease term with options to renew but in return get a lower rental rate now and lower increase amounts.
- My example:
  - 3 year lease proposed at 145k was going to increase to 155k;163k and 168k
  - My proposal 5 year with 3 year option and 2 year option=140k for 2 years, then 144k for 2 years then 150k.for year 5

# Value proposition

- Owner agreed to my proposal and our language AND gave us 48k for improvements “off the books”. We upgraded breakroom, did some painting and carpet work for 25k and pocketed 23k.
- Why did this work ? He was going yo refi but decided to sell the building because we were an anchor, long term tenant and his value jumped!

# CFO's approach

- Don't overthink or do our typical DCF/ hurdle rate/ present value analyses
- Think in total lease terms-he wanted a certain 475k cash flow, we gave him a certain 700k cash flow with 450 and 500 +k extensions. He viewed that as a 1.7 million dollar stream (even though we had the trigger) and he was able to sell the building for a million more with that logic.
- Conclusion-keep it simple!

# Summary

- You are not a R E expert so get an advisor. Review the market, do the analysis, investigate and summary report. Separately review the lease.
- You do the financial analysis of a longer term lease or a sale/leaseback.
- Use the advisor as the bad cop negotiator for you!
- They get paid by the landlord or seller so use an advisor.

# How to reduce energy usage

And how to reduce the costs that you pay for power and natural gas

# Timely topic

- Regardless of the costs, always better to just use less
- Plant manager, procurement and CFOs don't know how to measure (or reduce) usage
- Best practice-get an assessment done-often free by either utility or an advisor
- Lighting, controls, insulation, efficiency, etc.



# Where to look?

- Plant, conference room, parking lot, warehouse or office lights more than 7 years old-couple of year payback by upgrade. Halogen or fluorescents to LED
- Then do a controls upgrade-motion detectors, time controls, brightness controls, zones, etc.
- Tax credits, utility financing, cost per kwh discounts may exist

# Other usage reductions

- Do a clean sheet analysis-power, gas or oil? Do you know what you spend?

Do you understand your bill?

Consider:

- Conditioned air versus air conditioning?
- Humidity control vs. cold air?
- Fans vs air conditioning?
- Boiler efficiency/ mini boilers
- Heating or cooling mini zones?

# Get educated

- Do you understand PEAK power portion of your power bill? Reduce the peak load and save every day!
- Get an expert to analyze your power demand and make recommendations
- Controls and some basic timelines are key and easy to do!

# Examples

- LED lighting-two or three generation improvement in last ten years. 30% reductions very possible, sometimes more. Integrate zones and timing controls for 50% reductions and two year paybacks.
- Inlet air to air chiller reduction-huge savings in AC capital and operating costs 20 degree reductions are huge!

# More examples

- Use energy investment funding/ lenders
  - Low rates, subordinated and designed to be self funding by matching savings and term.
  - National platform-from several \$k to \$250k
  - Direct to client loans.
  - Glad to introduce you to NEIF!
- Use incentives from your utility or your new supplier!
- Consider solar-rooftop is free space, more efficient and panels are cheaper

# How to reduce costs

- Reduce usage then reduce cost per unit
- Deregulated states are the focus
- Ohio to Maine plus Illinois
- Plus gas only in Colorado, Fla. and Cal.
- Get a partner to review bills from each location. Free assessment!
- Retro utility bill adjustments occur!
- Procurement does not know this stuff!

# Examples

- PPPL just had a 33% in Jan. In your budget? Of course not!
- Deregulated power up about 8% in Pa.  
Still buying from the utility?  
Did you even know you could?
- Fewer suppliers in natural gas to your bldg. but there are contract options and savings options.
- Case studies on our website.

# PPL examples

- Rate was 8.9 cents per kwh
- Example-mall was paying \$90k now \$81k with five year fixed rate at 8.19 cents about a 10% saving.
- Manufacturer now paying 7.1 cents with 36 months fixed rate. Almost 20% base savings plus fixed rate protection from increases.
- Do you recall that PPL just raised rates 33%? Pretty smart CFO!

## PECO example

- Current rate is 6.39 cents
- Nursing home paying 5.82 for 36 months fixed
- **Why use a partner?**
- Partner manages the contract language (such as swing language and load management clauses), advises on market conditions and outlook. None of which Procurement understands or should understand!
- 100% of above savings to client! No 50 50 share with our partner.
- If you are spending at least 1k month do this!



## Natural Gas Pa example

Industrial user in Eastern Pa (UGI)

Was paying 61cents (\$6k gas cost per month) reduced to 51cents-a 15% savings.

Same pipe, same delivery, different supplier and still delivered by UGI

# Summary

- Again –GET AN ADVISOR PARTNER
- DO NOT expect Procurement to understand utilities-procurement is for strategic materials and services at best price, quality, service.
- Outsource specialty purchasing such as telecom, utilities, shipping, supplies, healthcare, 401k, business insurance, etc.

# To learn more

- Visit [www.thecfosolution.org](http://www.thecfosolution.org) website and click on the west coast portal aka PCS Portal

# Navigating our website

- Link to these sessions from PCS website or click on the PCS portal
  - Visit [www.thecfosolution.org](http://www.thecfosolution.org), click on members button to see  
Past content (over 60 sessions) and future working sessions (90 min)
    - View the table of contents
    - Slides and/ or zoom sessions
    - Testimonials, videos and examples
- Any questions, send me an email at [gbender@thecfosolution.org](mailto:gbender@thecfosolution.org) or call me at 215.421.8291
- Future session topics and dates (always 2 PM EST 3<sup>rd</sup> Wed. via zoom)

# Comments ?

- Visit the website through the PCS portal
- Let me know your thoughts and questions

[Gbender@thecfosolution.org](mailto:Gbender@thecfosolution.org)

215.421.8291

Thanks for joining our group!