

SOUTH FLORIDA BUSINESS JOURNAL

CFO ROUNDTABLE

Strategies for making it through the ups and downs of an economic whirlwind

May 27, 2016,

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Business Journal*



When the economy is booming and there's money to spare, a CFO's job could mostly seem free of worry. But the worth of these financial strategists is measured by how effective they are at safeguarding their employers during economic downturns and recessions.

Planning is certainly key during times of prosperity, but it's essential when times are rough. And an effective CFO can actually help a company benefit from a recession. As [Warren Buffett](#) said: "Look at market fluctuations as your friend, rather than your enemy; profit from folly, rather than participate in it."



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Thirteen top South Florida CFOs gathered May 13 for the *Business Journal's* CFO Roundtable to discuss how they accomplish just that, sharing the strategies that help their companies succeed and grow during erratic market changes.

The panel discussion was moderated by *Business Journal* Editor-in-Chief [Mel Meléndez](#). It was sponsored by Chase Bank, Daszkal Bolton and Randstad Professionals, which also hosted the event at its Fort Lauderdale office.

Weathering the storm: How to protect a business, and balance sheets, during a recession

Just as tropical weather and turquoise waters are inevitable in South Florida, fluctuations in a global economy are unavoidable and can seriously influence a business's bottom line. But as the lifeguards of company balance sheets, CFOs are constantly looking ahead and adjusting spending and operations to weather any forthcoming market storms.

While big market events like the Great Recession can devastate companies and firms that aren't prepared, good CFOs know that protecting a business during economic turmoil is just another part of the job.

“In many ways, it’s the same thing we do steadily all the time,” said Karen O’Byrne, CFO and COO of Boca Raton-based Modernizing Medicine, an electronic medical records technology and software company. “When things become less certain or more volatile, I tend to fall back to my data and key performance indicators. Measure more often, forecast more often.”

Another Boca Raton company, MDVIP, which shares a corner of the medical industry with Modernizing Medicine, agrees that analysis and forecasting is key in both economic downturns and upswings to help weather market fluctuations.

“We try to do a lot more planning up front, as I’m sure a lot of CFOs do. We look at various scenarios,” said [Matt Hashem](#), CFO of MDVIP, which connects a concierge network of physicians with clients.

Hashem and his team consider multiple factors and possible outcomes before moving forward.

“How much flexibility do we have to ease off the throttle and the spend rate?” Hashem said. “It’s the same with building a home. The old ‘measure twice, cut once.’”

If there’s one industry in South Florida that took center stage during the financial crisis, it’s real estate and construction. For [Bruce Moldow](#), executive VP, CFO and general counsel at Fort Lauderdale-based Moss & Associates, the way to make it through a recession is to stay lean and keep costs down.

And even after a recession has ebbed, keeping costs down is still top of mind to promote future growth.

“The desire has been to stay disciplined. We stayed very, very lean during the recession,” Moldow said. “As we build up, we are looking constantly at the metrics to make sure we are not running ahead of ourselves on the overhead side, on the expense side.”

One way Moss prepares for future fluctuations is by outsourcing jobs when possible so if the company has to scale back, it is not cutting key full-time employees. Because a company that dumps its staff during a rough patch could set itself up for staffing troubles when times improve.

“Keeping the operations people disciplined in the sense of not overhiring ... has been top of mind at the moment,” Moldow said. “We’re looking for opportunities to outsource – can we take it and add a consultant - so that if we have to pull back, we are not actually laying someone off, we’re merely limiting those services.”

One role CFOs routinely have to play is that of the “no” man or woman.

Because they have a comprehensive view of company financials, CFOs often have to play a more reserved role relative to other executives. And sometimes, saying “no” when the market is strong can be difficult, even if it’s what will keep a company afloat during a downturn.

“Sometimes that is a difficult conversation,” said Clayton Wilde, Wells Fargo’s regional finance manager for Florida. “You have to go to [your executive] with the shareholder in mind and explain that something is [or is not] in the best interest of what the shareholders expect. Usually, people are quick to follow suit, if you can explain the ‘why’ behind it.”

Today in South Florida, the real estate industry is on an upswing, and some expect it to slow down or plateau in the coming years. But because the recent housing crisis was so dramatic, construction companies, lending institutions and some developers have taken a very conservative approach to this cycle.

“There is a hangover still, at least in our industry, that this isn’t a real recovery,” Moldow said. “There is a healthy balance because some people feel good about the recovery and are building their units, and some are skill skeptical.”

“There is a sense that our [construction project] isn’t real until they are on the third or fourth floor and are out of the ground,” he added.

In the finance industry, where the recession devastated some banks and firms, CFOs can sometimes find themselves in a very atypical role: the “yes” man or woman.

“It’s weird to be in the CFO role and actually be more aggressive and try to push the business model,” said David L. Tuyo, II, senior executive VP, COO and CFO of Pembroke Pines-based Power Financial Credit Union.

Tuyo finds that, in the banking and finance industry, there is still a lasting sense of recession-era economics, and he is often the one pushing for a more aggressive strategy – a welcome change from the typical CFO stance.

From wherever a CFO sits – whether amid a recession or looking at a slowdown in the rearview mirror – keeping track of key metrics, core business performance indicators and forecasting against different scenarios helps to create a clear roadmap for the drive ahead. If it’s a downturn or an upswing, knowing how a company will perform in either scenario is key to keeping companies strong.

STRATEGY: Play to your strengths: Financial preparation is industry specific

On paper – or on a spreadsheet – one CFO job can look similar, if not identical, to another. And while all CFOs oversee core business verticals, spending, key performance indicators, etc., how they do so is quite industry specific.

Which means that when it comes time to prepare for a market fluctuation, or to figure out how to best please investors and shareholders, the “how” will depend on the industry and who makes up the investor pool.

“We’re constantly trying to find the right balance between playing offense and playing defense,” said Akbar Sharfi, managing director of Maryland-based

Harbinger Investments. “There’s no exact science to that; it’s not six parts offense and four parts defense. It varies from industry to industry and deal by deal.”

Harbinger is an international investment vehicle and operator, so how much offense and defense is played depends on the project, the sector and the country. For example, a domestic slowdown may mean something very different abroad.

“It is industry specific. I come from the government-contracting industry, and we went through sequestration,” said Debbie Ricci, CFO of Palm Beach Gardens-based Centerra Group LLC.

Centerra provides security and support services to government and commercial customers. So, on top of being affected by economic downturns or upswings, it is also affected by periods when large numbers of government employees are put on furlough.

“We’ve built a more variable-cost model,” Ricci said. “We push ahead and we see what happens if we bolt on another project. We’re continuously modeling.”

Centerra is primarily a service-oriented organization, which means it’s somewhat free of certain fixed costs. So for Ricci, as opposed to a CFO at a real estate or health care company, the costs that are cut first are very different.

“Changing your cost structure and getting rid of fixed costs,” she said. “We’re a service organization, so I don’t like bricks and mortar.”

Nonprofit and/or university networks operate on a much different playing field from the private sector and, while the challenges of keeping a balance sheet upright are the same, the players are quite different.

“From a public sector standpoint, much of our pressures are from the government and the politics, and we have to be very mindful of those expectations of the people who are in office,” said Dorothy K. Russell, VP of financial affairs and CFO of Boca Raton-based Florida Atlantic University.

Instead of investors or shareholders, FAU is beholden to Florida residents and taxpayers.

“We have to make sure that we’re meeting the expectations of local and state governments,” Russell said. “We’re really trying to target our emphasis moving forward, in a very public way.”

While most CFOs have the luxury of forecasting in monthly and quarterly intervals, in the hotel and tourism industry, time is broken down into weeks, days and hours. A Tuesday at a hotel is very different from a Friday, and they need to react quickly to changes, such as weather challenges and other travel obstacles.

But there’s a silver lining to the hotel industry’s more rapid fluctuations: Hoteliers and their finance executives aren’t holding their breath waiting for the next economic downturn.

“We’re very lucky ... [we’re] not waiting for the next downturn or upturn,” said Christopher Schaeffer, principal of Naples-based Coral Hospitality. “We have to have models in place that are not monthly, six months or yearly. They are hourly, because our business changes every hour.”

Coral Hospitality competes with big-name hoteliers and independent luxury resorts. And while the company is prepared for hourly changes, its customers sometimes aren’t.

“When you are asking somebody to pay \$700 a night and they don’t have that money, where do you go?” Schaeffer said. “A lot of companies let integrity of their product go by going down to \$300.”

Schaeffer said that companies that cut rates to fill rooms during a downturn may have had a harder time returning to normalized prices and quality. Once a room rate drops 57 percent, it's hard to justify an increase to the norm for customers, he added.

“We have always been disciplined in keeping the integrity of our product through any economic downturn,” Schaeffer said. “And the turnaround and success in coming out of it is key to holding that discipline because you will come back much quicker than everyone else.”

Q&A: The 2016 Presidential Election

What are you doing to prepare yourself for the possible outcome of the 2016 presidential election? Does it matter to your business who is elected? Does the uncertainty leading up to the election affect your business?

Bruce Moldow: International uncertainty worked to our benefit. But if we have uncertainty here, it will go the other way. People were bringing money [here] because the U.S. is perceived as a safe haven and, if it's no longer perceived as a safe haven, it's going to flip.

Jose Marina: Hillary Clinton, if she wins, will be viewed as a continuation of Obama. So stable, not much will change. If Donald Trump were to be elected, there could be some volatility in the markets. He already said he wanted to renegotiate U.S. debt, which obviously would not work. There could be some volatility there, but who knows?

David Tuyó: Seventy-three percent of our debt is structured in five years or less in U.S. Treasuries, so restructuring at longer-term, lower interest rates could be beneficial to the U.S. economy. There are three players in the game: the House, the Senate and the president.

Clay Wilde: I don't know that it matters. Our viewpoint is that if we are diversified and we are helping our customers and we're not compromising our integrity or customers, it will work out.

Christopher Schaeffer: If you define what your mission statement is and your core beliefs are ... you will be successful. If you stay committed to what your mission statement is, you can get through whatever else is happening politically, economically in the world.

Joseph Ziegler: The way we look at it, we think there is equally as much risk and opportunity whichever way we go. We try to look at it holistically.

MIX IT UP: Diversification and awareness of different trends keep business afloat

A big lesson companies and financial institutions learn during economic recessions is that a diverse business and/or investment model can help an entity ride out tough times.

For South Florida community banks, diversification was key after the last real estate crash.

“From a banking perspective, what we've done since the last recession is we've diversified our business model,” said Jose Marina, executive VP and CFO of Miami-based TotalBank.

“If you looked at us during the last recession, we were 90 percent commercial real estate,” he said. “Since then, we’ve added residential lending, and we’ve also been participating in national loan syndication, in industries diversified away from real estate so we have some diversification in our loan portfolio.”

The diversification approach is not unique to banks.

“Ironically, we did the exact same strategy,” said [Bruce Moldow](#), executive VP, CFO and general counsel at Fort Lauderdale-based Moss & Associates. “The only way to really protect yourself is diversification. That was the conclusion as we survived the last time.”

The construction company felt the crunch during the real estate crisis, and in the last eight years has diversified its geographic presence.

“We went through that downturn and said, ‘We can’t let this happen again, what do we do?’ Moldow said. “We added Hawaii operations, California, Texas. Pre-recession, we were 90 percent to 95 percent South Florida and Central Florida.”

In addition to geography, Moss looked at other types of projects to further expand its portfolio.

“For our vertical market integration, it’s the same thing,” Moldow said. “We looked at P3s – public/private partnerships – and senior living.”

But with diversification of business comes the balance: expense management.

“We need to be really thoughtful and diligent about how we are spending money, and do we need to pull back, and [watch] how are we spending it,” said Clayton Wilde, Wells Fargo’s regional finance manager for Florida. “We want to make sure that what we are investing in is going to help our team members and customers do business.”

A diverse portfolio is ideal to weather recessions, but companies need to ensure investments still add value.

For Weston-based Matrix Health Group, holding unused real estate may not seem like a direct way to serve patients or physicians. But it's a good way to diversify investments, and allows for a shield during a downturn or expansion during an upswing.

"I hate to spend money every month on an unused facility fee, but it's a great investment so we have the room to ride the tide," Matrix Health Group CFO Joseph Ziegler said.

In addition to investment strategy, he looks outside Matrix's core business when considering downturns.

"One of the key performance metrics we look at ... is the bank covenants, to make sure that you have that cushion if you see anything coming," Ziegler said.

For retailers like Riviera Beach-based Evelyn & Arthur, weathering a slowdown is possible when staffing is balanced and vendor relationships are strong. But it must consider global and seasonal diversity, and how those trends affect customers.

"One of the things we had no control of this year that had to be taken into concern is that there is a huge influx of Canadians who shop in the store, all of whom were looking at the 30 percent decline in the value of their dollar this year," Evelyn & Arthur VP and CFO Fred Weissman said. "At some point, you have to look up and say 'Hey guys, before we go out and spend aggressively, take note of the fact that they are not spending as much as they were before.'"

In South Florida, diversity can be a double-edged sword: great in a portfolio, and something to take note of when global economic trends take a dive.