Winter
2019

Commercial Insights

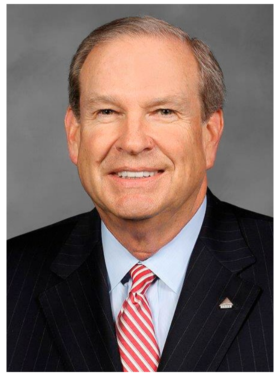
STRATEGIES AND EXPERTISE FOR YOUR COMPANY

REGIONS

THE TRANSFORMERS

5 Trends Sure to Affect Your Business

Welcome



As a business owner, you're responsible for more than just the products you make or the customers you serve. Like it or not, those responsibilities extend to a multitude of factors involving technological breakthroughs and the business climate as a whole. As you know, many of these are completely out of your control.

So how do you cope? One way is to be prepared. This issue of Regions *Commercial Insights* has been created to help you do just that. In "The Transformers" (page 6), we identify, explain and dig into the significance of major challenges and opportunities that will soon impact your day-to-day operations.

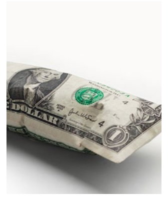
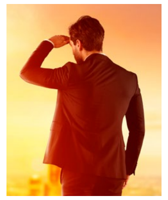
Many of the changes explored in this piece stem from technology, and we take on one of them in "How to Protect Against Cyber Threats" (page 3). Others have to do with the broader economic environment, and they receive special attention in "Inflation Is on the Way!" (page 10), as well as in "Hiring in a Tight Labor Market" (page 4).

As always, we're sensitive to the fact that businesses change as they enter different stages of development, and have included specialized guidance in "5 Questions You Need to Ask Before Raising Capital" (page 1), and "Are You Ready to Acquire?" (page 12).

When you run a business, every day brings fresh transformations. We hope this issue will show that regardless of the business you're in, we are here to help you explore and find solutions that fit this ever-changing environment.

William E. Horton
Senior Executive Vice President
Head of Commercial Banking
Regions Financial Corporation



EDITOR: Jessica Austin
SPECIAL CONTRIBUTORS: Gene Bowles, Chris Brasher, Jay Culver, Dwight Julbert, Jeff Kennedy, Ryan King, David LaPaglia, Sharri Logsdon, Greg Miles, Tim Monte, Marc Mullins, David Tannehill

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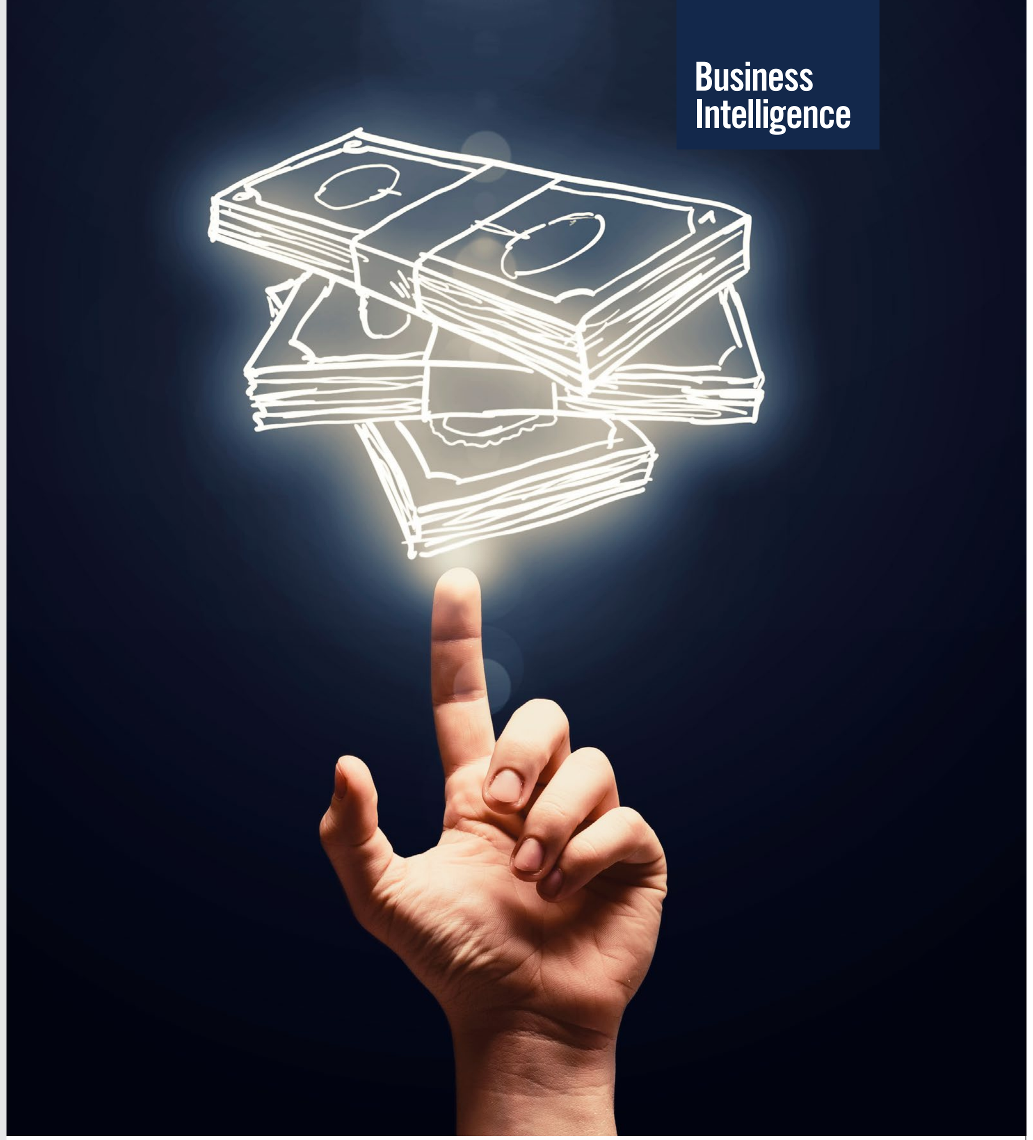


SHUTTERSTOCK

5 Questions You Need to Ask Before Raising Capital

Ensure you're getting the right capital type, amount and lender for your operation.

Whether it's for growth, an acquisition or a new initiative, raising capital for the first time is a signature moment for any business.

How can you best approach raising capital? Ask yourself these questions before you get started:

1. Do I need strategic guidance along with capital?

Your primary focus during fundraising should be on acquiring the right amount of capital at the best available rate, but you must evaluate what different investors bring to the table. Venture capital and private equity firms, for example, might be able to connect you with management talent. Banks might help you locate attractive acquisition targets, position your company for an eventual sale, or identify supplemental financing options.

2. What's my risk tolerance?

Know how much risk you can tolerate. "You have to make sure your rationale for raising capital matches your overall strategy, and that the leverage that you're taking on falls within management's comfort zone and the company's ability to service the debt," says Tim Monte, Executive Vice President and Head of Regions Debt Products Organization.

While every company wants the lowest possible cost for financing, your company may opt for more flexible payment terms in exchange for a higher cost. "It's useful to prioritize whether you're looking for the cheapest form of financing, the longest-term financing that's available or the most flexible financing—because typically, you don't line up all three of these at once," says Monte.

3. How much do I need—and when?

If you're funding an expansion or a new initiative, you'll need to determine how much you'll need and when you'll need it. Macroeconomic factors such as federal Treasury rates and market performance can influence timing for large publicly held enterprises. For private and smaller companies, raising capital may have more to do with the health of the balance sheet.

"For companies eyeing an acquisition," Monte says, "if you're going outside of your comfort zone in terms of leverage, then figure out how quickly your cash flow will get you back within that comfort zone."

4. Debt or equity financing?

Adding debt tends to come with near-term pressure to make interest payments. Equity capital is usually more flexible. But when you grant equity, you dilute the value and influence of your current ownership shares, which can affect the value of your company. This choice often comes down to whether you can afford to make regular repayments.

5. How will different types of investors see my business?

Banks favor stable, profitable businesses for debt financing, but venture capitalists care mostly about your growth potential. It's crucial to understand how and why different types of investors and lenders are likely to view your company favorably.

Any prospective capital partner will take a long look at your leadership team before writing a check. "If your management team doesn't have a real vision for where they're going to take the company, that's a huge red flag," Monte says. ▲

Choose the Right Card for Your Organization

Commercial credit cards can give your employees a level of independence and flexibility while giving your organization an effective solution for expense and budget management.

"Commercial cards function as a working capital tool," says David LaPaglia, Vice President of Regions Commercial Card Product Management. "They provide businesses the ability to pay merchants up front and on time while increasing their bottom line."

Choosing the right commercial card depends on how you'll use the card and what works best for your organization. As you weigh your options, keep these basics in mind.

THE FOUR KEY FEATURES TO LOOK FOR AND WHY

FUNCTION

Why do you need a commercial card?

Commercial credit cards have various functions and features. The main types include:

- **Purchasing cards** Primarily for your back office, these cards are used to cover accounts payable and pay for equipment, goods and services.
- **Travel and entertainment cards** For team members who spend a lot of time traveling, these cards can be used for expenses such as hotels, flights, rental cars and meals on the road.
- **Fleet or fuel cards** For companies with a fleet of vehicles to manage, these cards can be used for fuel and maintenance.
- **All-in-one solutions** Some banks offer a single card that can be used for all of the functions above, streamlining management for your organization.

PROTECTION

How can you manage spending and security?

Commercial cards give companies a way to enable—and control—employee spending on behalf of the business. Commercial card providers can restrict how specific cards are used to ensure only approved types of purchases are made.

Commercial cards also typically feature built-in protections to help assist with potential misuse and fraud. "By leveraging real-time authorization alerts, transaction reports and spending controls, organizations can gain clear visibility into their expenses and quickly identify unauthorized transactions," LaPaglia says. He suggests looking for a card provider that offers fraud monitoring, alerting you to suspicious behavior or charges as they arise.

INTEGRATION

Can your card improve your processes?

Commercial cards can integrate with existing enterprise resource planning systems and accounting processes, making it easy to reconcile transactions and accounts payable activities. "There are a significant number of configuration and integration points with each commercial card program, so it's important to understand how your accounting systems connect to your card provider's to easily access information," LaPaglia says.

That integration also gives you clear visibility into how and where employees are spending money, which could lead to smarter purchasing decisions.

REWARDS

What perks do commercial cards offer?

One benefit that's unique to commercial cards is revenue sharing. Based on the volume of purchases over a month or a year, your card provider may share a portion of the revenue they receive back to your company.

"This provides an organization's accounts payable department the ability to generate revenue, acting as a discount on purchases that are already being made," LaPaglia says. "Additionally, organizations can leverage their buying power to reduce expenses by consolidating the number of vendors they do business with."

How to Protect Against Cyber Threats

Hackers are vigilant. You need to be, too.

Hackers are constantly evolving and improving their techniques, working full time to infiltrate businesses. "They are always a few steps ahead," says Sharri Logsdon, Senior Vice President of Regions Consumer and Business Compliance. But these practical steps can help any company minimize threats and stay ahead of cyber risk.

- **Monitor your vendors.** Third-party vendors, such as accounts payable service providers, need to be equally vigilant in protecting your customers' data. "Vigilance includes business continuity precautions," Logsdon says. The consequences of a data security breach can be vast. "In addition to your business's reputational risk, you could lose shareholder value and face lawsuits, fines and penalties," she notes.

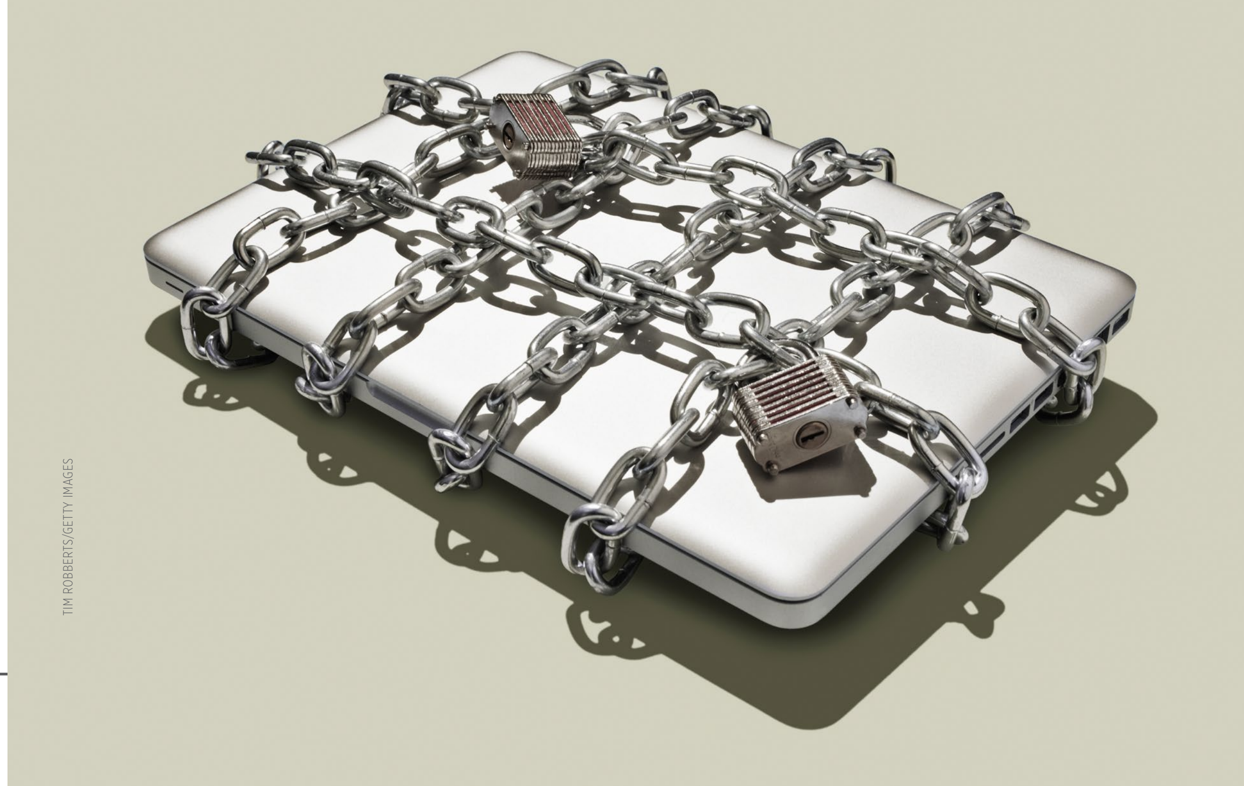
- **Go beyond compliance.** Don't be satisfied with regulatory compliance. Stay aware and ahead of emerging risks. For instance, cryptocurrency brings on an entirely new realm of risks that business owners need to monitor.

- **Delve into acquisitions' liabilities.** If your business is acquiring another firm, make sure it has strong cybersecurity controls and systems in place. "Pay attention to legacy products or services that could create control and system issues in your organization," Logsdon says. "Make sure you're not exposing your organization to risks you haven't considered."

- **Hire smart people and tap local resources.** Don't skimp on tech. Hire top-quality IT staff, and invest in robust technology infrastructure. Trying to save money with a do-it-yourself approach could turn out to be costly in the long run.

  Because small businesses don't have deep pockets, or a large wealth of expertise, it's important to access local resources. "Look for seminars on topical issues, or perhaps you could work with a graduate student from a local university," Logsdon says.

- **Make risk management everyone's job.** Uninformed employees are more likely to fall for phishing scams, download malware and compromise overall security. Integrate risk management into your business's culture and make it something that everyone is aware of and helps take responsibility for. "If you're not placing data privacy and cybersecurity at the top of your to-do list every day," Logsdon says, "you're likely to get hacked."



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Watch, Prepare, Adapt

From your investments to your financial plan, to your business and family, to live is to adapt.

The Fall 2018 issue of Private Wealth *Insights* is all about preparation and adaptation. That may mean adjusting your long-term investment strategy to anticipate the long-term changes affecting the equity and bond markets, possibly by considering alternative investments. It also focuses on global changes that may lead to profitable opportunities, like mineral rights and the emerging global middle class.

Learn about adaptations that can protect your assets and family, including steps you can take now to mitigate risks associated with living longer, such as cognitive decline. Additionally, see how to address discord in the family business before it causes lasting damage to either your family or your business.

Adaptation—whether you're looking for new opportunities or for changes to protect yourself—is at the heart of this issue of Private Wealth *Insights*, and it demonstrates how a Private Wealth Advisor can help you adapt to the changes you face today, while preparing for the ones that will inevitably come tomorrow.

Look for the Fall 2018 issue of Private Wealth *Insights* at **regions.com/insightsmag**

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Hiring in a Tight Labor Market

Follow these six guidelines to help you recruit—and retain—the best talent.

Finding the right people to grow your company can be tricky, especially in today's labor market. For the first time in 20 years, there were more job openings than people looking for work, the U.S. Department of Labor reported in July 2018. That means there's more competition for talent.

"You'll always have people applying," says Ryan King, Head of Regions Talent Acquisition. "They just might not be the applicants you're looking for or need for your business."

King says keeping your business moving, and staying a step ahead of growth, requires a plan. And as you create a talent recruitment plan, it's important to consider your current employees. "You should always be preparing for not only growth, but also for talent to leave your company, because that's going to happen," he says.

Here are a few ways to prepare.

ALWAYS BE RECRUITING

Even when you aren't hiring, you should be building a talent pipeline. Pay attention to your competitors, keep an eye on promising candidates on LinkedIn and go to networking events. This can help you meet and build relationships with people you may want to hire.

"When you're under pressure to add to your team or replace someone who's leaving the company, you're not starting at ground zero," says Dwight Julbert, Head of Regions Talent Management and Acquisition. "You can tap into a pool of talented individuals—some of whom might be at a time in their career or their life when they're ready to make a change."

MAKE EVERY EMPLOYEE A RECRUITER

Enlist the help of your current employees. You never know when an employee could meet a candidate, so be sure everyone knows what to say.

"You want everyone to be able to go out and tell their own story about how much they love to work at your company, how it's a great environment to work in and what it's really like to work there," Julbert says.

It's also important to make sure your employees don't say the wrong thing when recruiting. Julbert and King recommend having managers work closely with your human resources department, or a human resources consultant if you don't have your own team, to understand the parameters of what employers can ask potential candidates. It's also important to provide a clear message about which company qualities you want employees to highlight when they talk to potential candidates.

KEEP THE TALENT YOU HAVE

Recruiting new talent takes time, and bringing new talent into your organization can be expensive. "You'll have to spend time and possibly money to train them, and you'll have downtime from a productivity standpoint as they get up to speed—all of those things add up," King says.

The expense of recruiting and training—and going back to the drawing board if new employees turn out to be the wrong fit—makes a strong case for retaining the talent you have.

"You've got talent within your organization with a known work ethic, a known performance level and institutional knowledge of your company," Julbert says. "Remember, they're probably getting calls from recruiters too."

Julbert says keeping current employees engaged is key. "Make sure they're being recognized, and talk to them about their own personal and professional growth," he says. "It's typically not money that drives someone away. It's the feeling that they're not doing their best work, they're not challenged, or they don't feel they have a clear career path."

THINK BEYOND SALARY

Working on employee engagement can help you discover what aspects of your company might appeal to new recruits. It's important to be clear about what your company offers beyond salary. "When we go out and recruit, we often find that our candidates are also being recruited by competitors," King says. "We have to be able to compete on more than salary alone, like our company culture, our values, how we do business and other strengths that set us apart."

King adds that, more and more, candidates are asking about things like company performance, culture, long-term benefits, work-life balance and other factors they value.

> **"It's typically not money that drives someone away. It's the feeling that they're not doing their best work, they're not challenged, or they don't feel they have a clear career path."**
>
> *DWIGHT JULBERT, Head of Talent Management and Aquisition, Regions Bank*

UNDERSTAND YOUR OPTIONS

In some cases, it might make sense to bring on freelancers to cover short-term needs. This gives you a way to keep moving in times of growth and develop a working relationship with freelancers who might be interested in a full-time opportunity.

If you work with freelancers regularly, make sure you understand the trade-offs. These workers won't have the same institutional knowledge you'd get with a full-time employee.

You might also consider hiring remote employees. Technology makes it possible for professionals across industries to work remotely and still collaborate with your team. Offering remote working arrangements broadens the talent pool.

This path comes with trade-offs too. Julbert says managers should communicate frequently with remote employees to ensure they are working well in this environment. "They might have the right skill set, but they also need the right mindset and discipline to work from home or apart from the rest of the team," Julbert says.

KNOW YOUR AUDIENCE

Ultimately, attracting talented employees comes down to being the most attractive employer to the talent you want to reach. That means you need to understand what's most important to different types of candidates in addition to what you have to offer.

"Understanding in advance what's important to candidates can help you make decisions about the environment you want to create so you can appeal to the talent you want," Julbert says. ▲

Speak to your Commercial Relationship Manager about:

- Tactics other companies have used to successfully attract new employees
- Strategies to reduce turnover among hourly workers
- Types of incentive plans that might increase retention of salaried employees

MORE ONLINE For additional resources, please visit **regions.com/commercialinsights**

THE TRANSFORMERS

5 Trends Sure to Affect Your Business

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The new economy—increasingly digital, global and flexible—has led to cascading, accelerating change that has transformed nearly every business. And more change in the coming year is a virtual certainty. But what will that change look like for your business? *Commercial Insights* has identified five key trends that are shaping business today and are likely to do so for the decade. Some, such as difficulty finding and keeping talented staff, are a product of business cycles and the age-old reality of supply and demand. Others, from the rise of artificial intelligence to blockchain, represent developments that until recently were the stuff of science fiction, but are rapidly becoming realities that every company needs to understand and prepare for.

1. Employee retention

In early October, unemployment was 3.7%, the lowest level in nearly 50 years, underscoring what most business owners already know: Finding and keeping good employees is getting harder. While that's true across many sectors and job types, companies are competing especially hard for workers with technology skills.

"It's tough to find cybersecurity talent, or talent specializing in programming or analytical functions," says Ryan King, Head of Regions Talent Acquisition. And after years of high unemployment rates when every job, it seemed, had multiple applicants, "potential employees are smarter about the full benefit picture than they've ever been before. They're more aggressive about things like health care, pharmacy benefits, dental, 401(k)s and long-term incentives."

While smaller employers may not always offer the same scope of benefits as larger ones, taking a concerted interest in each staff member's career growth can go a long way, King notes. "Employee engagement is about making sure each employee has a professional development plan, a career path, and that they know that the company is invested in their future."

No matter how long the strong economy and low unemployment last, the key is to have a forward-thinking strategy in place, King says. He recommends an annually updated human-resource strategy that takes into account your company's short- and long-term goals. "Any company's number one commodity is their people," King says. "So why wouldn't your number one strategy be about your people?"

2. Data security

Businesses now stand a higher chance of experiencing a serious data breach—28%—than individuals do of catching the flu, according to the 2018 Cost of a Data Breach Study by Ponemon Institute. Even smaller breaches, involving fewer than 10,000 documents, cost companies an average of $2.1 million, the study found.

"You've got to protect your own intellectual property, ensure that your

associates don't lose data and, most importantly, protect your customer information," says Jeff Kennedy, Regions Chief Information Security Officer. Rising security threats coincide with demands for the convenience that comes with having more capabilities and storage in the cloud.

Fortunately, some of the most effective security steps don't require major outlays for new technology, Kennedy says. "A lot of it comes down to good cyber hygiene." Encourage customers and employees to create complex, unpredictable passwords, and don't re-use them on multiple systems. Also use two-factor (or multifactor) authentication wherever feasible.

"Keep your systems up-to-date with the latest patches, and limit access to your most critical assets to those employees who truly need it. You'd be surprised how far that goes," Kennedy says.

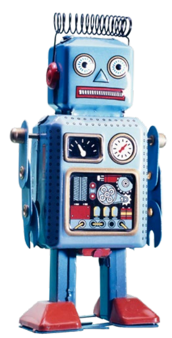
Also educate your employees. Something as simple as ensuring that employees avoid sending sensitive emails or files while they're using a public wireless internet connection at the airport or a coffee shop, can help prevent breaches. "Employees need to understand the vulnerabilities and rising number of external threats, and have the discipline to use the secure systems the company has in place."

3. Automation

The term "automation," immediately brings to mind robotic welders and assembly arms. And while 1.7 million new robots will populate the world's factories by 2020, according to the International Federation of Robotics estimates, automation is staking new ground in service companies and white-collar businesses, says Marc Mullins,

"Automation is about taking any redundancy, waste and inefficiencies out of the equation."

MARC MULLINS,
Manager, Corporate Banking Group, Regions Bank



Manager of Regions Corporate Banking Group. "Automation doesn't stop where most people think it does," he notes.

For any business, "automation is about taking any redundancy, waste and inefficiencies out of the equation. It's about efficient use and reuse of data and routines that improve processes for you and your customers." That can mean targeting advertisements with precision to customers who, based on past behaviors, are likely to be looking for a specific product or experience.

As an example of automation moving into new areas, Mullins cites a handyman service he contacted recently for a home repair job. "They had a completely automated experience for me, from reserving a convenient time, to setting the scope of the repairs," he recalls. "They showed up, told me when the work would be finished, and as soon as the job was done they sent me an automated feedback form to

FROM TOP: BUSAKORN PONGPARNIT/GETTY IMAGES; GREGOR SCHUSTER/GETTY IMAGES

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see if I was satisfied, followed by an automated invoice. They made the process effortless."

For any company that deals directly with consumers, the challenge is to capture the benefits of automation without losing the human touch or making customers feel neglected. "Ideally, robotics and automation should help companies do a better job at face-to-face contact," Mullins says. Used properly, automated processes enable companies to deploy workers more effectively, "allowing them to pay closer attention to service and human aspects of the transaction."

One reason that automation is having a bigger impact is that it is enabled and improved by advances in our next trend, artificial intelligence.

4. Artificial intelligence

We've all seen the movies in which computers grow smarter than their human developers and wreak havoc on the world. But in business, the reality of artificial intelligence (AI) is proving to be far different. "AI is just augmenting the intelligence your associates already have," says Chris Brasher, Head of Regions Bank Operations. "It's making the decisions easier. You still need human input."

Brasher isn't alone in that assessment—more than two-thirds of executives polled for a recent PwC survey believe that the pairing of human and artificial intelligence will be a positive force, and 65% of workers say AI will free them from the more menial tasks associated with their jobs.

While much of the current business use of AI involves cybersecurity, it is expanding to areas such as customer service and beyond, Brasher notes. For instance, computers capable of analyzing images may soon help insurance companies settle claims. "They'll look at the picture and understand the damage and make a recommendation on the size of the claim," Brasher adds—all with greater speed and accuracy than human eyes. Car repair companies, meanwhile, may learn directly from on-board computers what's wrong with a car, enabling them to order parts before the car arrives in the shop.

Businesses can also use machine learning to constantly improve their onboarding programs, allowing them to train new hires faster, resulting in reduced expense and higher productivity, Brasher suggests. With each new associate they train, AI systems will be able to learn where new hires struggled, and what they picked up quickly, and adjust accordingly, he notes.

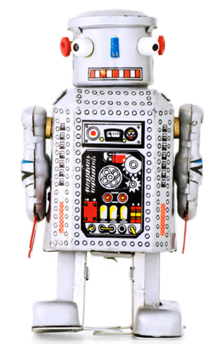
When investing in AI, Brasher suggests business owners start with a basic question about "pain points"—those of their customers and their own. And then they should explore whether AI might address those issues. If so, he suggests that businesses be willing to test incrementally before making a large-scale investment.

5. Blockchain

Blockchain emerged a decade ago as the technology behind new digital currencies, often called "cryptocurrencies." And while bitcoin has conquered most of the headlines, blockchain technology has quietly gained acceptance in a wide range of areas and holds

"You don't have to go back very far to remember when people didn't understand what a browser was."

GREG MILES,
Senior Vice President, Head of Treasury Management Digital and Shared Services, Regions Bank



the promise of revolutionizing how businesses process transactions.

Blockchain is, essentially, a means of digital record-keeping. Individual "blocks" of information are connected to one another, forming long chains that are resistant to hacking or tampering. That protection enables independent parties—say, two businesses—to engage in secure transactions without the need for centralized third parties to verify the transaction, explains Greg Miles, Senior Vice President and Head of Regions Treasury Management Digital and Shared Services.

"The applications of blockchain are virtually limitless," Miles says, adding that they include health care, where blockchain could provide a means for managing and authenticating electronic medical records, and supply chain management. While the technology is still new, Miles harks back to the early days of the internet, when the technology, let alone its financial potential, seemed murky at best. "You don't have to go back very far to remember when people didn't understand what a browser was."

Some large companies in transportation, technology and finance have already made major investments in blockchain. For small- and mid-sized companies, now may be a time for learning. "Education is the key," Miles says. Staying abreast of new developments in your industry is the best way to be ready as the technology matures. "Blockchain is coming, probably a little more quickly than people think," he adds, along with an observation that might apply to all of the disruptions facing businesses today. "Don't assume this is going away." ▲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Inflation Is on the Way!

Rising prices may be worrisome, but modest increases can signify a healthy economy. Here's some perspective on what it could mean for you.

Amid solid corporate earnings, low unemployment and rising wages, the U.S. economy is showing signs of strength not seen since before the financial crisis of 2008. While that's good news in many ways, a robust economy raises the prospect of something that Americans haven't seen much of in recent years: inflation.

"The economy has recovered and employment has improved, to the point that businesses are really finding it difficult to hire and retain qualified workers," says David Tannehill, Director of Fixed Income Research and High Yield Strategies at Regions Investment Management. "As a result, wage-gain expectations have started to pick up, which has fueled some inflation concerns."

Inflation, if unchecked, can quickly erode the purchasing power of your dollar. But Tannehill believes that domestic and global economic and demographic forces—combined with the Federal Reserve's desire to keep inflation under control—make the return of damaging inflation, such as we saw in the 1970s, unlikely.

WHY SOME INFLATION IS GOOD

Although consumers never enjoy paying higher prices, modest inflation is actually a sign of a strong, healthy economy, Tannehill notes. The Federal Reserve traditionally shoots for annual inflation of around 2%. "A steady, predictable rate builds confidence and makes it much easier for companies, households and governments to budget their incomes and expenses," Tannehill says.

In the years following the financial crisis, the Fed kept interest rates down in an attempt to revive the economy. Should inflation start to rise toward 3% or beyond, the Fed would most likely do the opposite, Tannehill believes. Raising rates makes borrowing money more expensive and tends to slow an economy down. In March, the Fed raised the upper end of its key federal funds rate from 1.5% to 1.75%—and signaled plans to similarly raise rates twice more by the end of 2018.

If inflation were to spike in spite of higher rates, the Fed could also accelerate its sale of the massive stockpile of bonds it acquired after the financial crisis. By shrinking its portfolio, the Fed would tend to reduce the country's money supply and slow the economy, Tannehill says.

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> "Your response to the possibility of inflation may depend on your personal views and situation."

DEMOGRAPHIC FORCES

Even without such actions, Tannehill says, an increasingly globalized economy argues against an extended period of high inflation. For one thing, the populations of the United States and many other developed countries are rapidly aging, and young people are delaying the start of families. Such trends tend to slow the growth of an economy.

And while unemployment is down, the rise of robots and other technologies enables companies to produce more goods with fewer workers. That makes it less likely that we'll see the sort of labor shortage that might result in a big spike in wages and, hence, inflation, Tannehill notes.

WHAT YOU CAN DO ABOUT IT

The economy and markets can be unpredictable, however, especially in the short term, Tannehill says. For example, rising trade tensions, with the United States announcing tariffs and other countries threatening to retaliate, could lead to a short-term spike in inflation.

Your response to the possibility of inflation may depend on your personal views and situation. Before making any decisions, speak with your Regions Wealth Advisor to make sure that any steps you take fit with your underlying financial goals. "Each client's goals and objectives need to be focused on their particular needs, along with their risk tolerances," Tannehill says.

If you're concerned about inflation, one form of protection may be Treasury Inflation-Protected Securities, or TIPS. With TIPS, unlike conventional bonds, your principal increases when inflation (as measured by the consumer price index) rises. The trade-off is that TIPS often pay a lower interest rate than other government bonds. And they can be more complex from a tax perspective, so be sure to discuss the pros and cons with your tax advisor, Tannehill says.

Other options might include real estate and commodities. Because commodities (whether energy, metals or agricultural products) are actual goods, their value tends to rise right along with higher prices, Tannehill says. "That could possibly offset declines you may have in stocks or bonds," he adds. "That's the idea behind diversified strategies."

PROTECTING YOUR RETIREMENT

Cash is particularly vulnerable to rising prices. Though higher interest rates mean you'll earn more on your cash, money markets or CDs, "on an after-tax and an after-inflation-adjusted basis, you could actually be losing some money," Tannehill notes.

That can be especially problematic during retirement, when you're likely to need ready access to liquid funds in order to meet your living expenses.

One potential way to stay invested while still generating income is by buying a series of short-term bonds that mature in sequence—a process known as bond laddering. "You're generating income," Tannehill says, "and as your bonds mature, if inflation is causing interest rates to be higher, you have an opportunity to reinvest those matured bonds into a higher interest rate environment."

For retirees, as for other investors, the key is to "stay diversified and not have all of your eggs in one basket," Tannehill says. Whether inflation rises, drops or stays the same, he adds, the best defense for changing economic conditions is keeping a primary focus on your individual goals and the long-term strategies you've worked out with your advisor to meet them. ▲

Speak to your Commercial Relationship Manager about:

- Whether increased inflation is likely to affect your investments
- Whether there are steps you can take to position your bond portfolio to take advantage of rising interest rates
- How rising inflation could affect your investment income, and what you might do about it

GENE BOWLES
Managing Director, Regions Securities

Are You Ready to Acquire?

Make an offer only after you've answered these five questions.

Mergers and acquisitions are corporate fertilizer: They help companies get bigger, faster. If you're not careful, however, a deal that was intended to help your business can actually hurt it.

"Executives need to take a hard, honest look at their existing business and determine whether they have the capabilities, the intellectual capital, the human capital and the risk tolerance to build out a new business initiative," says Gene Bowles, Managing Director of Regions Securities®, the corporate finance group of Regions Bank. "They then have to weigh that analysis against the risk of finding, buying and, ultimately, integrating another company into their existing operations."

The calculation is more art than science, Bowles says. However, companies can calibrate their corporate compasses to point them in the right direction by asking the following questions:

1. Is now a good time to buy?

Companies looking to acquire a business must consider both internal and external conditions, Bowles says. External conditions include economic fundamentals like the overall health of the economy and consumer confidence, both of which have been trending upward since 2009. Internal conditions, meanwhile, include technology, talent and market share—gaps in which can be positive M&A drivers.

2. Does your target have a complementary corporate culture?

Make sure your target's mission, vision and values align with your own. "You can have the most seemingly attractive target from a product set or from a capabilities standpoint," Bowles says, "but if the cultures don't mesh, the deal ultimately is not going to be successful."

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3. What kind of talent works at your target?

A broad and deep management team is preferable to a narrow and shallow one. "It's easy to get good visibility into the senior executive team," Bowles says, "but what's really important is understanding how deep the bench is behind senior leaders in terms of people who can execute corporate strategy and ultimately step into those management roles if you need them to."

4. Does your target have strong financials?

Strong and reliable financials are key, according to Bowles, who says financial due diligence should be two-pronged: First, hire an outside accounting firm to review financial statements and produce a quality of earnings report to verify the target's performance and profitability. Second, review the target's financial systems and staff to ensure they're robust and can be integrated effectively with your own.

5. Is there legitimate synergy?

If your target won't produce enough revenue, or will be too costly to manage, then acquiring it should be a nonstarter. "The most common mistake I see is corporate acquirers trying to justify a higher purchase price with overly aggressive synergy assumptions," Bowles says. "People get excited for a deal and oftentimes convince themselves there are opportunities to cut costs and grow revenues that may not actually materialize. Buyers need to be honest with themselves about what is actually achievable and be disciplined enough to walk away when the underlying fundamental assumptions don't justify paying a premium valuation."

Even the most promising acquisitions can go awry. With proper due diligence, however, acquirers can turn a substantial financial risk into a significant financial reward. ▲

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Rising Interest Rates

Understand how rising rates affect your business and how you can adjust to benefit from them.

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Confidence in the job market and the U.S. economy is high, according to the Federal Reserve, which plans to continue its several-year policy of raising rates. The Fed raised the benchmark federal funds rate in 2015—the first increase since 2008. Another three hikes are slated for 2019, with a final increase coming in 2020. By then, the Fed projects the funds rate will be greater than 3 percent.

"While that sounds high relative to the near-zero rates we saw from 2008 until 2015, historically that's still low," says Jay Culver, Regions Rates and Commodity Risk Management. Although they make acquiring capital more expensive, rising interest rates can actually be a positive thing, according to Culver, who says businesses should celebrate instead of commiserate. "Rising rates normally are an indicator of a strong economy," he says.

To maximize returns from that economy, business owners should look carefully at their capital structure—starting with debt.

"Variable-rate debt tends to be cheaper but comes with a lot of volatility, whereas fixed-rate debt is more stable but comes at a higher cost," Culver explains. With interest rates rising, companies that have traditionally gravitated toward variable rates now have an opportunity to lock in fixed rates while they're still low, achieving optimal balance between "low cost" and "low risk."

Now might also be a good time for companies to consider issuing bonds with extended maturities. "Historically, most companies financing in the bank market were looking at three- to five-year rates," Culver says. "Because the yield curve right now is relatively low and flat, a lot of companies are looking at extending maturities out to seven, 10 and in some cases even 15 years because the incremental cost of doing so is relatively small."

Some strategies land in between fixed- and variable-rate debt. "There are other capital market alternatives that allow companies to protect against higher rates without necessarily going all the way to fixing a rate," says Culver. Companies can consider interest rate options like caps and collars, which may allow them to hedge against higher rates, while still retaining some benefit if rates stay low. "It's important for business owners to know what alternative tools are available to them and to be able to pull those out of the toolbox when it's appropriate," Culver says.

The toolbox isn't limited to debt instruments, either. It can include operational changes, like cutting costs or making capital improvements. "Those things are strategies for responding to what may be a higher-cost environment," Culver says.

Ultimately, it can be helpful to consider rising interest rates as a green light for growth. "While it's important for businesses to evaluate if rising interest rates may impact them, it shouldn't stop them from investing in their business," Culver concludes. "The economic situation that's pushing rates higher presents an opportunity for business owners to continue to grow." ▲

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>
> **JAY CULVER**
> *Rates and Commodity Risk Management, Regions Bank*

1900 Fifth Avenue North
Birmingham, AL 35203

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