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Capital Optimization in the Current Economy

Key Strategies to Address Short-Term Needs & Maximize Long-Term Value

Today's financial leaders operate in an environment characterized by intense competition and economic uncertainty. With an elevated interest rate environment, there's more pressure to effectively allocate capital, manage risk, and build long-term resilience. Recent PwC research found that balancing cost reduction and growth investment is a key challenge for 89% of CFOs undergoing business transformation.[1]

To meet these expectations, executives must focus on capital allocation opportunities that offer the highest returns. Here, we explore top ways finance leaders can address near-term needs, generate long-term value, and position their organization for continued success:

Avoid Idle Capital at All Costs

Allowing capital to sit idle is a missed opportunity—and with an ever-growing pressure to perform making the stakes so high, it could result in companies losing their competitive edge, market share, and top talent. Instead, financial leaders must adopt a proactive approach to capital management, continuously evaluating investment opportunities to put their cash to work and generate maximum value. When an influx of capital comes in, executives should consider redeploying the cash back into the business, but must be hyper selective about which strategic priorities will yield the greatest returns.

Prioritize the Highest-Impact IT Initiatives

Doubling down on digital investments, like Artificial Intelligence, presents immense potential to improve efficiencies and drive competitive advantages across all business functions, including operations, sales and marketing, IT and engineering, legal, tax, and R&D. Although AI is still in its infancy as a core business asset, BCG's Digital Acceleration Index shows that companies already scaling AI across their organization have experienced big payoffs. Even modest investments in specific AI use cases can generate up to 6% more revenue, and with greater investments, up to 20%.[2]

Other game-changing areas to invest in include: automation technologies to streamline operations and free up resources for more strategic tasks, advanced analytics tools to drive data-driven decision making, and robust cybersecurity measures to protect data and systems.

Turn Back the Clock with a Capital Reimbursement

A capital reimbursement, also known as a sale leaseback, empowers businesses to adapt to a changing economic environment. If you initially purchased equipment but circumstances have shifted, a sale leaseback allows you to revisit that decision while maintaining flexibility and operational control.

Most recently acquired assets, including soft costs, can be sold to a lessor and reimbursed for up to 100% of the original purchase price. First American's 4-step process is simple:

1. *Submit your recently paid invoices*
2. *We complete underwriting, then customize your lease term and structure to fit your needs*
3. *Once approved, you receive up to 100% of the purchase price*
4. *our lease payments begin*

Organizations can leverage the liquidity boost from a sale leaseback by reallocating the capital towards strategic growth initiatives—like recruiting and retaining employees, entering new markets, or research and development. Moreover, this approach lets you pool assets into a single, streamlined financing arrangement. Instead of managing dozens of individual leases, you can accumulate the equipment over time and then execute a larger sale leaseback transaction.

Today's high-pressure paradox to keep costs down while investing in long-term growth means financial leaders must adopt a proactive approach to capital optimization. While there is no one-size-fits all answer to allocating capital, striking the right balance between risk and opportunity is essential for financial leaders to maximize value and achieve long-term success.

Sources

1. *PwC, Pulse Survey, August 22, 2023*
2. *BCG, "Scaling AI Pays Off, No Matter the Investment", January 2023*

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