



EXTREME MAKEOVER

To change with the times, Hyundai Capital America overhauled its capital structure

STAFF WRITERS

The auto industry was changing, and Hyundai Capital America (HCA) knew it needed to change too if it wanted to keep pace. To meet these challenges, HCA overhauled its capital structure. In the end, HCA's solution was so innovative that it won the AFP 2019 Pinnacle Grand Prize for excellence in treasury and finance.

Looking around the bend

Following nearly a decade of rapid growth, HCA's balance sheet had expanded dramatically, with a significant reliance on debt. This had stretched HCA's capital structure towards the upper limits of its internal targets. Additionally, heavy reliance on secured funding limited its amount of unencumbered assets and reduced operational flexibility, since plain vanilla assets were required to be pledged. The



growth HCA experienced had similarly limited the accumulation of excess liquidity, hindering HCA's ability to prepare for cash flow contingencies.

HCA realized that it needed to overhaul its capital and liquidity strategy if it wanted to remain relevant in a smart mobility future. Asset-backed or secured funding reduces an organization's ability to innovate and constrains operational flexibility. The auto industry has changed substantially in recent years, with increased ride share, autonomous driving and electrification—therefore, a financial strategy that didn't allow for innovation was not a viable option.

Major innovations

Uniquely, HCA's finance department was where the innovation began, having been given the role of directing overall strategy. The team determined that its best option was a radical transformation of its capital structure and liquidity profile, one that would position HCA for market force disruptions. Finance significantly reduced its leverage, which provided a stronger capital cushion and more flexibility to pursue new revenue opportunities. The finance team also reduced asset encumbrance and increased its unsecured borrowing capacity to prepare for future market changes and the next eventual downturn.

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As a finance business, HCA's funding cost competitiveness is imperative. Throughout this transitional period, the finance team was able to maintain that competitive edge through innovative bank and investor sourcing, as well as strong marketing. “Our dramatically strengthened financial profile is enabling the commercial side of the business to lean into the industry changes rather than resist and risk obsolescence,” said Charley Yoon, treasurer for Hyundai Capital America.

Recapitalizing the business involving three key goals: supporting companywide efforts to enhance profitability, arguing for a fresh equity injection, and proposing an innovative financing move that consisted of selling assets (a residual sale) to strengthen the balance sheet. These initiatives reduced HCA's debt to equity leverage by 2.5x over six quarters.



Ranjana Clark of MUFG presents the Pinnacle Grand Prize to Charley Yoon of Hyundai Capital America.

Growing HCA’s unsecured funding mix required intensive marketing efforts, which meant going around the world to expand the company’s network of senior unsecured bond investors. Finance also upsized HCA’s commercial paper (CP) program by 30% to \$3 billion, and targeted incremental investors through tradeshows, investor conferences and in-person meetings.

Finance also changed its U.S. bond issuance format by beginning its bond borrowing during Asia market hours, and then following the sun to Europe and carrying on into the U.S. market. While this doubled HCA’s borrowing hours, it also exposed the company to higher market risk.

Key outcomes

HCA’s funding flexibility increased exponentially. Unencumbered assets grew by more than \$4 billion, and secondary liquidity in its senior unsecured bonds and CP improved with their larger outstanding balances. HCA’s unsecured funding mix increased by 13 percentage points to over 60%. Additionally, the rating agency implied rating for HCA’s capital adequacy improved by four full notches.

Finance shifted over \$1 billion of annual debt maturities out of the overcrowded summer months, and upsized and extended the maturity on its largest committed revolving credit facility to \$4 billion. This was particularly significant,

as most of HCA’s competitors were introducing shorter tenor revolving facility tranches in order to get banks to refinance their overall facilities.

“The dramatic reduction in our leverage demonstrated a strengthened financial profile, which helped reduce our borrowing costs through minimal credit spread concessions charged by lenders,” Yoon said.

HCA’s new funding flexibility enabled the front-end of the business to pursue new and innovative products, including auto finance subscription/bundles, partnerships with mobility/ride-share providers, used vehicle financing, longer-term loans, and eContracting.

Pinnacle Award

The Pinnacle Grand Prize, sponsored by MUFG (Mitsubishi UFJ Financial Group), was presented to HCA before the opening keynote at AFP 2019 in Boston.

“AFP is honored to recognize Hyundai Capital America’s contribution,” said Jim Kaitz, president and chief executive of AFP. “As disruption continues, Hyundai Capital America’s solution embodies the innovative spirit required to advance the treasury and finance profession.”

MUFG donated \$10,000 to the charity of HCA’s choice, Children’s Hospital of Orange County, which specializes in pediatric care. The hospital has a pediatric residency program, as well as the Children’s Heart, Neuroscience, Orthopedic, and Hyundai Cancer Institute.

Ranjana Clark, Head of Global Transaction Banking, Head of Transaction Banking Americas, and Bay Area President for MUFG, hosted the ceremony. “MUFG is proud to partner with the AFP in recognizing companies for their advancements in treasury and finance,” Clark said. “Hyundai Capital America’s entry highlights how an innovative approach can evolve the way companies conduct business. We congratulate Hyundai Capital America on receiving the Pinnacle Award and we are pleased to support their charity, Children’s Hospital of Orange County, in serving the community.”

The runners-up for the Pinnacle Award were Baird and Expedia Group. Along with Hyundai Capital America, these organizations were selected as finalists for their innovative solutions that demonstrated increased revenue, reduced risk, enhanced productivity, saved costs, or improved quality.