

The right formula



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DAVID BLACKWOOD, GROUP TREASURER OF ICI, TALKS TO PETER WILLIAMS.

If ever there were a living example of the treasury professional working hard and playing hard, then David Blackwood fits the bill. His northern accent – perfectly pitched to give dialogue coaching to the characters on *Coronation Street* and apparently undimmed from his time living in the south east of England – is set to be heard a lot by treasurers over the coming months.

Blackwood seems effortlessly to combine his role as Group Treasurer of FTSE 100 company ICI with working hard on behalf of the treasury profession, most notably in the last year or so in the difficult and critical area of pensions.

He is also Chairman of the Society for International Treasurers, under whose aegis he is chairing the ACT's Talking Treasury conference in Prague on 23 March, most notably filling the same role at The Treasurers' Conference in Newport between 17 and 19 May.

Blackwood may be serious about treasury issues but serious should not be confused with solemn. He is as likely to be found in the bars in Prague and Newport as he is on the conference podium or leading one of the many panel discussions. But wherever he is, you get the same sharp intellect and the same dry humour. He makes light of his considerable expertise on pensions and he is – even compared to such a numerate bunch as top treasurers – extremely comfortable with using, working with and understanding numbers. Prior to talking to *The Treasurer* he had just finished a meeting with academics from Imperial College, London on pensions. Formulae and calculations for an asset allocation model still remained on the whiteboard. Although he denies he understands the most arcane elements of the mathematics, it is obvious that he understands more than enough.

It is also clear that he is equally comfortable with his role as Group Treasurer of ICI. From Blackwood's perspective, the treasury team of ICI is a forward-thinking, innovative group who have seen the company through major difficulties and challenges. He has a careful explanation for his key responsibility. "The main role of the Group Treasurer is advising the board and the Finance Director on managing the balance sheet and risk. A major part of that these days is pensions, which wasn't the case a few years ago."

A quick glance at the numbers explains why pensions loom so large. Look at ICI's balance sheet and you see net debt at somewhere around £800m. By contrast, the pensions deficit as calculated under FRS 17 *Retirement Benefits* is twice that at £1.7bn.

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Qualifying and working as a Chartered Accountant with Touche Ross (now Deloitte) in Manchester in the 1980s, after graduating from Durham University with a degree in maths, Blackwood decided to move from the profession into industry and commerce. Like many others, he didn't expect to stay with his first employer outside the profession for long. But unlike many others he found a job with ICI and at the same time he also found a career.

Blackwood has now spent a large portion of his working life – well over 10 years – at the international business, which has experienced renewed success

in the international specialist chemicals market. ICI sells products and services worth £5.6bn, has 33,000 employees worldwide and boasts a 50,000-strong product range, so its centralised treasury team has its work cut out.

The company has may have lost its tag as the bellwether of British industry but it still carries an awful lot of history and cachet. The 2005 figures for ICI look good for a company that has undergone significant restructuring. Profit was strong as a result of successfully raising prices and the benefits of restructuring (see *Box overleaf*). But this has not always been the case. Blackwood can remember 1995, when one of ICI's divisions made a healthy £250m. The following year it made nothing. The days of such volatility for the group and its businesses appear to be over.

"I have been at ICI for a while now in various roles," says Blackwood. "It has been a fascinating time for me and I have been at the company while there have been some huge changes. For example, we have only one division left of the eight that we previously had in 1993 after the Zeneca demerger."

In a company that has experienced severe market changes that have affected its global operations and which has made large-scale acquisitions and disposals, the treasury team has had its fair share of complexities to deal with.

"We run about 40 companies through the treasury department and this involves doing all the financial accounting for them," explains Blackwood. "It's a combination of finance companies, debt vehicles and a whole series of tax structure holding companies. We have more than we should because of our history and many of those legal entities don't naturally fit into any of our present businesses. It's quite a big job but we have a good structure to the team."

Before his five years as Group Treasurer, Blackwood was Group



Financial Controller, and before that Chief Financial Officer of the films division at ICI, and has taken on the challenges presented by various other roles.

"I have been at ICI for a while now," he says. "It is a large company and so far has always found me new challenges when I've been a bit bored. I've had a fascinating time at ICI."

Blackwood has a large team by treasury standards, with 18 staff, all working hard to help the group's businesses across the globe function smoothly.

"We have a reasonably big middle-office, which is responsible for the confirmation process and the company's secretarial and admin. The funding manager and the controller, who looks after the back-

and the middle-office, are both very experienced. I also have a deputy treasurer, who is in charge of the front-office and very much focused on risk. He also looks after some of our geographical positions. We also have a pensions manager who is an experienced asset manager."

Blackwood says that there has always been a tradition of a high degree of competency in the treasury team at ICI in dealing with the peculiar demands of working with the closed economies of the globe in which the company operates.

"We deal with our open economy countries differently from the closed economy countries," he explains. "While we fund the open economies on a daily basis to our worldwide cash management structure, we fund the closed economies periodically. We extract cash through dividends periodically and there are a lot of tax considerations within that."

ICI comprises five key businesses. These are National Starch and Chemical Company, Quest International, Uniqema, ICI Paints and the Regional Industries Group, which is made up of businesses with their principal locations in India Pakistan, and Argentina.

With such a wide-reaching company

in terms of geography as well as product lines, what kind of treasury policies enable Blackwood and his team to manage all areas of the business?

"Because we have a lot of small footprints in a wide range of areas we have to have clear treasury policies," he explains. "Of course, the key policy is liquidity – how much headroom do you need and what maturity profile do you want?" Alongside that, he sees currency protection of business values as the second biggest policy area.

In a department which clearly has to respond to market volatility as well as a massive company reshaping, Blackwood thrives in the job, which has presented many challenges.

"During my time there have been many issues for me to deal with as Group Treasurer," he says.

"When I started we had a more difficult balance sheet and a lot of operational challenges, such as cash management, which had to be implemented in Europe. I think I have found the challenges and the complexities the most enjoyable element of the job."

One of the big issues is the pensions crisis, which has been an important part of the work of the treasurer for some time now. And all the smart money says it is a problem which is not going to disappear overnight.

"We are in a pretty small club of companies that have very large pensions compared with their balance sheet," Blackwood says. "This means that it does warrant an awful lot of management attention."

"People ask the question: is it solvable? This depends on your definition of solvable. Ultimately, it should work out."

If you have people of the calibre of Blackwood working on the issue, then the likelihood is the solution will be relatively palatable.

Peter Williams is Editor of *The Treasurer*. Additional reporting by Julia Berris, Reporter on *The Treasurer*.

CEO praises profit and progress

When revealing its full-year results for 2005 in February, international specialised chemical company ICI recorded full-year profits before tax of £444m, an increase of 5% compared with the previous year. "ICI made good progress in 2005 in mixed trading conditions," said ICI Chief Executive John McAdam. "Overall, modest growth, success in raising prices and benefits from restructuring helped deliver a satisfactory improvement in profit."

McAdam said that progress in Asia remained strong and encouraging, and he noted Quest's continual improvement during the year.

"Despite weak markets in Europe, steady performances from our growth activity in Asia underpinned the good progress," he said. "In addition, cash generation was ahead of expectations and helped reduce net debt by £244m in the year."

Despite the weakness in the market in Europe, McAdam said that the forecast for 2006 was positive because of strengths elsewhere on the map.

"The outlook for 2006 is unchanged," he said. "At this early stage in the year, trading conditions look satisfactory, with growth opportunities in Asia, North America and Latin America likely to offset any continued weakness in Europe."

"Against the backdrop, and with further incremental benefits from restructuring, ICI expects to make further progress in 2006, in line with its strategic plan targets."

