Ask the experts:

Define your treasury challenges

At the recent Talking Treasury conference in Dusseldorf in June, three treasurers from different sectors and from different locations in Europe gave a fascinating glimpse into their differing treasury challenges.

Ute Wolf, Senior Vice President Finance, RAG Beteiligungs-AG
RAG is in the last stage of a radical corporate transformation. In 2006 it had sales of €14.6bn with earnings before interest and tax (EBIT) of €1.234bn. The company has a diverse business portfolio with a heterogeneous financing structure including a centralised finance function. The parent company is the financing platform for the group, with a syndicate loan facility of about €3bn. The energy division is mainly financed by project financing in special purpose vehicles (SPVs), while the real estate still has a substantial amount of state-aided financing with market-oriented securitisation transactions under way.

In the finance department, corporate finance is responsible for long-term financing (loans, bonds, private placements), backup facilities, hybrid bonds and credit ratings. Treasury is responsible for cash pooling, short-term liquidity management, financial risk management and asset management.

Treasury performance is measured in terms of cash pooling, short-term liquidity management, foreign exchange (FX) management and interest rate management. Cash pooling looks at costs and the efficiency of liquidity management. The FX management deals with the substantial exposures coming from operating businesses, with different risk profiles in different businesses. Group-wide benchmarks are not applied in interest rate management as the financing structure is still heterogeneous.

One historic reason why RAG had a centralised finance department is that cash is and was key, because the company had no capital market access and had to grow on a leveraged base. We still have high leverage.

With the sale of the new group and the clear target of the initial public offering (IPO), there is a need to centralise some functions because with an IPO you have to speak as one voice to the market. And as you look towards the issue of financial market regulation, the board has to ensure that risks are covered centrally. There are commercial reasons for central financing such as risk pooling. We are a service-oriented treasury department but we contribute a lot to profits. For instance when it comes to FX risks we have a direct influence on EBIT.

Stephan Bohner, Head of Banking & Company Financing, Roche
In managing a treasury there is not a single formula that suits all companies. The right approach depends typically on the size of the company, the complexity of its business and the sector it operates in. However, some features distinguish most successful treasuries: a high degree of centralisation, fully integrated systems and good people whose performance gets adequately measured.

At Roche, a leading healthcare company

headquartered in Switzerland and present in over 150 countries, we have moved down the centralised path in treasury at a relatively late date. Once we decided to go for a centralised treasury, it became clear that we would move straightaway into a global setup and not go for regional treasury centres any more.

In the last couple of years we have built up our SAP-based InHouse Bank with a global cash pool reaching out to 132 participants in 41 countries and 28 currencies. This impressive infrastructure not only allows us to run on a tighter cash balance, but also to internalise short-term funding and settlement of intragroup payables, and to centralise FX management.

Large FX flows are the result of the highly integrated business model typical of healthcare companies, where manufacturing and R&D are located in only a few places around the world. This means that a substantial part of the worldwide revenues result in substantial cash flow exposures across many currencies. In the last couple of years we have centralised about 98% of these exposures into one entity. With this in place it was a logical next step to start to measure the performance of our FX managers against fully hedged exposures.

We have reduced banking relationships from more than 150 to 11. All business is strictly allocated to these core banks and there is only one core bank serving our affiliates in a particular region. Going forward, the priority will be to ensure outstanding service quality from those banks. For this purpose, satisfaction at both affiliate and headquarters level is now measured regularly.

Mike Verrier, Group Treasurer, Wolseley
Wolseley is a FTSE100 company that distributes heating and plumbing products, and building materials. When I joined in 1999, turnover was £5bn; in 2007 it will exceed £16bn. Broadly speaking, this growth has been generated half organically and half through acquisitions. Our share of the markets we operate in is still quite small and we anticipate the group doubling in size every five to seven years for many years to come.

The real challenge of my job is to have a treasury and tax function capable of servicing a much larger group than we are at present. So we spend a lot of our time thinking not about how we should be structured now, but what we need for the future.

Funding the group has been particularly interesting. When I joined, we had a single overdraft and financed acquisitions by phoning the local branch manager to ask for a bigger overdraft. The group is now principally funded by bank debt provided by 30+ relationship banks.

Over time, we have diversified our funding sources and issued a US private placement for $1.2bn in 2005. Since one of objectives is to achieve the lowest after-tax cost of debt, we are always interested in looking at structured finance deals, which reduce the overall interest cost.

In the past seven years the group's net debt has increased from £450m to more than £2bn. Acquisitions are financed from our own cashflow and extra debt. Maintaining a stable gearing ratio is a key goal and helps to determine the level of acquisitions we can undertake in any given time period.

The group is highly cash-generative and the net debt effectively funds the working capital of the group, which is considerably more than £2bn. In the absence of significant growth, the group's net debt would be repaid relatively quickly, so long-term debt is not essential and only accessed when it is cost-efficient.

The group does not have a formal credit rating. However, given the structure of our balance sheet and underlying cashflows, we have no need to access public capital markets, where having a rating would be a significant benefit. No doubt, if growth continues it will be appropriate for us at some point to get a rating to access capital markets.

Most of the group's acquisitions are very small. The great majority are below £10m, so funding them is not an issue.

The real challenge is the occasional big one-off acquisition. For example, we acquired DT group in the Nordic region for £1.5bn in September last year.

This is where our core banks provide an invaluable service, because they provide the commitment to bridge the funding of the acquisition until we can access the capital markets. Making sure that the select inner core of our banks understands the business and will commit to funding us at very short notice is key to financing large acquisitions cost-effectively.

With more than 5,000 business branches in 29 countries, we have a large requirement for domestic cash management. This gives us the the opportunity to partner with a large number of banks. We now have 30+ relationship banks.

A small number of the relationship banks form an inner core. These banks have strong product offerings and have demonstrated considerable commitment to the group over a long period. We work closely with them to help them understand our business and objectives, and in return they propose products tailored to our needs.

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