Rider of the storm

LEFT SADDLED WITH A MOUNTAIN OF DEBT AFTER AN ACQUISITION WENT HORRIBLY WRONG, INVENSYS CONCENTRATED ITS CORPORATE MIND SO SUCCESSFULLY ON CASH GENERATION THAT IT IS NOW BETTER PLACED THAN MANY OTHER HEAVYWEIGHTS, AS KARL FENLON TELLS **GRAHAM BUCK**.

PHOTOGRAPHER: ROGER HARRIS

Formed 10 years ago by the union of two UK engineering conglomerates, Siebe and BTR, automation and controls group Invensys has been in and out of the FTSE 100 ever since. Promoted to the list of Britain's 100 biggest companies again last September after a five-year absence, the company came close to collapse a few years ago after its purchase of Baan, a Dutch company that was once Europe's second-largest software provider but which ultimately went bust.

Invensys was unable to revive Baan's fortunes. Indeed, its own were dragged down in the attempt, and it was only after Invensys managed to secure a £2.7bn debt and equity rescue package back in 2004 that a slow but steady revival got under way.

However, the company's struggles earlier this decade have left Invensys in better shape to ride out the recession than a number of its blue-chip peers. As Karl Fenlon, its vice president of group treasury and taxation, explains, in retrospect the company was in some ways fortunate in being denied the ability to make any more major purchases just as the mergers and acquisitions market was reaching the very top of the cycle.

"At the time the group was devoting its efforts to being cash-generative, so we had a sizable cash pile when the crunch arrived against £3bn of debt back in 2000," he says.

Fenlon has been with the group for just over a year. Arriving in 2008, he immediately started work on putting together a £400m credit facility for the group, which won the accolade of The Treasurer's Deal of the Year Award in the mid-market category. But even before his latest role, he has a formidable track record that goes right back to his first job after graduating from the University of Surrey with a degree in economics.

"I joined the packaging group Tetra Pak, which offered me a position in general accounting," he recalls. "One of my major tasks was to carry out the costing for a big packaging exhibition held in Birmingham, after which I worked on the UK service operation and carried out reviews of the group's various UK locations."

After a year and a half at Tetra Pak, Fenlon moved to Air Products based at Walton-on-Thames, where he spent the next seven years. He joined as an accountant, but when another company approached him with an offer after 18 months he moved instead to the Air Products treasury department.

"I was fortunate enough to have a couple of great bosses over this period and moved around all the different areas of treasury," he says. "A further opportunity arose after the Berlin Wall came down in November 1989, as soon after I moved into a new role covering eastern Europe, reviewing potential acquisitions, joint ventures and new customers. This led, ultimately, to my running all the company's treasury operations for Europe as I consolidated the continental European operations into the UK."

However, as a result of this work he was subsequently faced with two options, neither of which held much appeal for him or his young family. One was to relocate to eastern Europe to continue developing the business there; the other was a move to Allentown, Pennsylvania. The US town was perhaps even more challenging: it gave its name to a ballad by Billy Joel about industrial decline.

"I decided to look around and it seemed like a good point to move into the UK corporate world. My jobs up to that point had provided a good all-round training and I'd also completed the ACT exams at an early stage. However, it was going to be a challenge moving from a regional treasury office to a corporate head office."

His next employer was transport business NFC, which in its previous incarnation as the National Freight Corporation had been sold to employees in 1982 as one of the Thatcher government's first privatisations of a state-owned industry. Although based in Brussels, Fenlon was involved in an initiative to set up NFC's new office for the group in London. This plan was to change, though; a year into the project, cost-cutting measures saw the location switched to Bedford.

ALL THE WHILE, YOU COULD CLEARLY SEE WHAT WAS HAPPENING AROUND THE WORLD AND IT WAS NOT GOOD. HAVING WORKED FOR A BUILDING MATERIALS GROUP, I WAS WELL PLACED TO ANTICIPATE WHAT WAS COMING, AS THE CREDIT CRUNCH HAD ITS ORIGINS IN THE US HOUSING MARKET.

"This was obviously a great disappointment, but I don't regret my time at NFC as it provided good experience. I had the opportunity to work with a really strong corporate finance team in Belgium and to set up a new operation in the UK. But it was time to consider my next move. Ironically, one of the projects I'd been involved with at NFC drew the comment from my FD that if I was successful in putting it through, 'The result would be very similar to something Hanson might try.'"

As it happened, Fenlon had already been approached by and had had an initial interview with the conglomerate, which at that time was demerging, spinning off Imperial Tobacco in a bid to become more of a conventional corporation and less of a mergers and acquisition vehicle.

"It was looking for an individual with experience of corporate treasury at a very practical level. I joined with a view to possibly doing a two-year stint with the group, but it turned out to stretch to 11 years in all."

He had to hit the ground running at Hanson. In his third week in his new job he met the FD to discuss structured derivatives that the group planned to bring to market, and "within the next fortnight we entered into transactions with a nominal value of $1bn".

The group's treasury department mirrored Hanson's restructuring over this period, with around £1bn of disposals after the demerger into four separately quoted businesses. Hanson itself was left as one of the UK's main building supply groups. From the late 1990s onwards, Hanson was, on average, engaged in one acquisition per month, financed through syndicated loans and dollar bonds. In the process it became the world's largest producer of aggregates while maintaining a stable credit rating.

Fenlon's role steadily expanded as other functions, such as tax, insurance and pensions, were added.

The Hanson name eventually disappeared from the FTSE in the summer of 2007 when Germany's Heidelberg Cement launched a successful £7.85bn takeover. Fenlon points out that it was one of the largest deals in the building materials sector and struck just as the market had reached the peak.

He spent the latter half of the year at Heidelberg assisting with the financing for the acquisition. "It was already evident from mid-2007 onwards that conditions were becoming much more challenging, so we worked with the Heidelberg team to get the merged treasury activities and internal structure in place as soon as possible."

A short break in Oman towards the end of this process coincided with opportunity arising once more, as Fenlon was offered his current role with Invensys. He says that while it is still too early to judge whether his work with the group "will represent a project or a career", he joined as he was impressed with what it had achieved in turning around its fortunes.

The group's £2.7bn refinancing in 2004 (£2.3bn in high-yield bonds and £470m in ordinary shares) was followed up two years later with a further £1bn package (a £700m senior credit facility and a £341m capital increase). However, the covenants for these facilities were proving overly restrictive for the next stage of the group's development and on joining the group in January 2008 Fenlon began work on a third and smaller refinancing to provide Invensys with investment grade-style covenants.

The aim "was to get the group in shape with the right banks", so work focused on the banks and the rating agency models and the various supporting presentations. The facility, initially £350m, was raised to £400m following oversubscription and was completed last June shortly after the release of the group's annual results.

"All the while, you could clearly see what was happening around the world and it was not good," says Fenlon. "Having worked for a building materials group, I was well placed to anticipate what was coming, as the credit crunch had its origins in the US housing market."

Since the refinancing, Fenlon's work has been very much a case of returning to fundamentals such as basic treasury policies and liquidity management.

"It's become more of a conventional job," he explains. "A lot of work has been carried out on the tax side, and we had to work out whether – and if so, how – to access the group's tax losses and use these going forward. If we hadn't been able to access these, in common with many other British companies, of which a handful have made the move, Invensys would have reviewed the possibility of changing its domicile to a non-UK location."

With the tax loss utilisation in place Invensys has been through a court-approved capital reduction exercise. This is far simpler than the alternative of putting a new parent company above the various businesses, which include industrial automation (44% of 2008 revenue), the controls business supplying manufacturers such as Whirlpool and Electrolux (30%), and a thriving rail division (26%).

With the capital reduction in place the group is technically in a position to resume paying dividends for the first time since 2002. The deficit in the reserves was finally eliminated in January this year and the team is now waiting for a green light from the board.

"Resuming dividends would be a good way of demonstrating that the revival in the group's fortune has moved on to the next stage and I'm sure would be welcomed by investors," says Fenlon.

Invensys' treasury department formerly included a team in North America as well as a Singapore-based treasury manager, but has more recently been centralised and aims to use banks that can offer operational reach rather than treasury individuals.

Fenlon says that a total of 15 banks participated in the most recent refinancing deal. "It's quite a lot for the figure involved of £400m, but it matches the spread of our operations. We're pretty happy with the group we use, which include the four major UK clearers and two big US banks."

His treasury team now has three assistant treasurers. One runs the front office to support the group's operations, including issuing the bonds and guarantees required by the group's contracting businesses. The second covers international operations with a focus on the increasing importance and complex treasury requirements of the group's businesses in Asia Pacific and Latin America. And the third looks after the group's businesses in developed economies and the enhancement of the reporting and control functions which were outsourced to India during 2008.

Bonds and guarantees currently represent the team's single biggest issue and one that is likely to continue for some time.

"As Invensys is a major contracting business operating across a large part of the world, we are required to post performance bonds," says Fenlon. "While our committed bank facility enables us to do so, demand for bonds and guarantees is continually growing, while the capacity for banks to issue them is fairly static.

Despite these problems, and the challenge of a downturn that is steadily intensifying its grip on the major economies, Fenlon is confident that Invensys is well positioned to ride out the recession.

"The process that the group underwent a few years back has left us with a portfolio of businesses, with exposure in oil, gas and power, where we think that investment will hold up relatively well and we have a strong net cash position with minimal debt. Our automation and signalling division for rail systems is also well positioned to win major orders."

Recent orders, which include a $250m contract to install control rooms for nuclear reactors at two Chinese power stations, suggest that his confidence is not misplaced.

Graham Buck is a reporter for The Treasurer.
editor@treasurers.org