Joined up thinking

GRAHAM BUCK LOOKS AT HOW EUROPE'S LARGEST DATA CENTRE PROVIDER IS FINANCING ITS EXPANDING EMPIRE.

Telecity Group has cemented its position as Europe's largest data centre provider over the past decade, boosting capacity at its 24 sites located in the major European connectivity hubs. Its clients range from Transport for London to Spotify and Facebook.

Telecity's success and controlled expansion was underpinned last year when the group refinanced a syndicated four-bank club deal with a new five-year facility totaling £200m. At the same time it also managed to add new lenders to its banking group and access new funding to support future growth. The achievement was recognised by the company winning The Treasurer's Deals of the Year award in the midmarket loans category.

Its £200m facility has recently been increased with the same four banks by a further £100m, with the entire facility repriced and the tenor refreshed to five years.

Brian McArthur-Muscroft, Telecity's group finance director, says that because the company is a capital-intensive business its funding and treasury are an essential area of focus. Although the group does not have a full-time treasurer, it operates a treasury committee and its members are considered to have sufficient financial experience to operate effectively. The committee's terms of reference are agreed with the plc board and members include the finance director, finance controller and several other senior group finance employees.

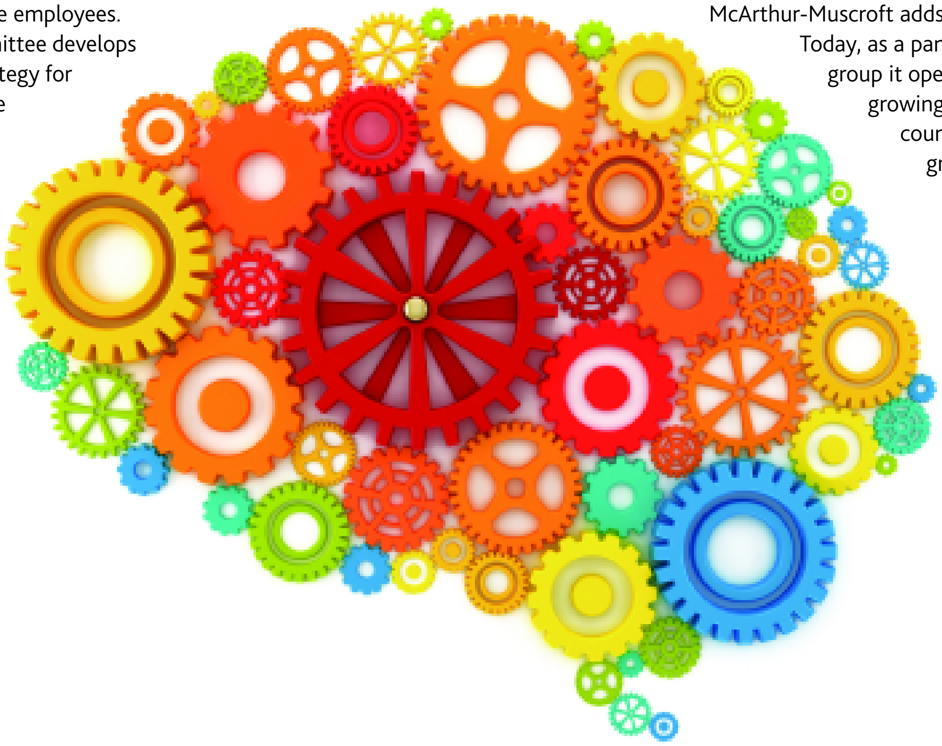
The committee develops treasury strategy for review by the board. It meets monthly to discuss treasury issues, which are also then reviewed on a weekly basis by a subset of the committee so that decisions can be made on any actions needed to deal with FX positions, excess cash and the position of any loans. These are, in turn, reviewed and approved by the finance director. Other strategies include using appropriate financial instruments, to mitigate any exposures where possible.

The committee also has visibility over the wider group finances through daily MT940 reporting, which is collated into a weekly cash report. Telecity is moving to a common banking platform across all geographies, with the aim of further improving visibility and management of cash reserves. Group finance already employs sweeping and pooling techniques across a common platform.

CASH MANAGEMENT SHIFT Telecity is still a relatively young company, established in 1998. McArthur-Muscroft says that in the early years cash management was focused on working capital management. As the business has evolved, the focus has shifted towards optimising the use of excess cash and lowering the interest charges payable.

"The treasury committee continues to develop ways to maximise its treasury efficiency including long-term, increasingly accurate forecasting along with consideration of foreign exchange and interest rate strategy," McArthur-Muscroft adds.

Today, as a pan-European group it operates cash in a growing number of countries. The group's policy is



to make each operating unit relatively autonomous, leaving them free to operate their own cash as they see fit within certain parameters.

"They are allowed to retain cash to fund any expected net operating cash outflows in the next three months, though should they ever have excess cash it is required to be remitted to the treasury company managed by the treasury committee," adds McArthur-Muscroft.

"Any requirements for capital expenditure funding that they can't meet themselves will be funded from the group treasury company. Telecity seeks to maintain a natural FX hedge by matching its financial assets and liabilities with the treasury company. The subsidiary trading companies have minimal local FX exposure, as they are financed from the treasury company in their local currencies."

FIVE-YEAR COUP Telecity's Deals of the Year accolade was due in part to its success in securing a five-year tenor for last year's refinancing. Had this been difficult in a period when three-years have been the norm?

McArthur-Muscroft agreed that it proved a tough challenge. "We believe that we have only been successful in doing so due to a proven track record and exceptional, open relationships with our bankers; our club now consists of the four main UK clearers."

As the group's future funding requirements expand, it will consider bringing in some continental European banks to give it greater reach and to diversify any banking risk. It has already been building relationships with a number of other names over the past two years.

"The size of the banking club in the future will be determined by a number of factors, including the size of the facility and respective hold limits," says McArthur-Muscroft. "We have also been looking at other sources of funding, including bond markets, private placement and other investment funds. The key point is that we do this all of the time: it's a continuum, not a project that we undertake every now and then."

He identifies Telecity's biggest challenge as having efficient funding to capitalise on the significant opportunities available for further organic growth and also potential value-creating bolt-on acquisitions in both its new and existing markets across Europe.

Indeed, just before we went to press, the company announced its acquisition of Dublin-based Data Electronics Group for £87.6m cash in order to boost capacity. In addition to maintaining relationships with banks and other financial institutions, the group may in time venture into private placements or bonds.

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