

Elan: recognising the importance of reviews

Susan Skerritt of Treasury Strategies and Pat Leavy of FTI explain how pharmaceuticals group Elan went about reviewing its US cash management practices.

Elan Corporation plc, a leading, worldwide speciality pharmaceutical company, undertook a comprehensive review of its US cash management practices in the second half of 2000. The review resulted in a recommendation to consolidate cash management systems and structures to achieve significant improvements and savings in bank fees and interest costs.

This following case study outlines the approach to the review, the results achieved and the implementation process adopted. The implementation of the new structure is currently under way.

Background

During the past decade, Elan has expanded significantly in the US by way of acquisition. Each operating entity has its own financial staff and approach to cash management. At the beginning of the project, Elan had seven operating companies, located throughout the US. During the project, two more subsidiaries were acquired and more acquisitions are planned in the future.

As a direct consequence of this acquisitive growth, control and management of cash and liquidity was dispersed and inconsistent throughout the US operations of the group. Elan Group treasury sought to improve this and to optimise the value being secured by the organisation from cash resources, addressing both banking arrangement and liquidity costs.

Group treasury was aware that simultaneous, independent borrowing and depositing/investing was being undertaken by subsidiaries, and that there was surplus cash not being used in US subsidiaries, which could be utilised to either reduce debt on Elan's balance sheet or improve returns on cash surpluses. It was also aware that it required comprehensive knowledge of the real status of cash and liquidity

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management positions and US practices to be able to develop and propose a solution. But it was essential that the issues be properly analysed before a solution was attempted. In addition to optimising the utilisation of cash, Elan wished to ensure that consistent best practices were being employed throughout its US group operations.

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Elan Corporation plc is a leading worldwide speciality pharmaceutical and drug delivery company headquartered in Ireland, with its principal research, development, manufacturing and marketing facilities located in Ireland, the US and Israel. Elan is focused on the discovery, development and marketing of therapeutic products and services in neurology, pain management and oncology, and on the development and commercialisation of products using its extensive range of proprietary drug delivery technologies. Elan shares trade on the New York, London and Dublin Stock Exchanges. ■

Recognising the need for local market knowledge and product expertise, Paul Gallen, the Group Treasurer, selected our companies – FTI (in Ireland) and Treasury Strategies (in the US) – to perform the analysis, to recommend a solution, and to assist in selecting the appropriate bank(s) to satisfy its US cash management requirements.

The purpose of the review was to get a proper assessment of current practices and requirements, as a basis for developing and implementing a solution that would:

- provide the appropriate banking services and bank account configuration to ensure that a satisfactory cash and liquidity service would be available to group subsidiaries in the US;
- improve all practices so that maximum value from its cash resources is secured for the group;
- provide a consistent control process – in line with best industry standards – for cash and liquidity management for US subsidiaries; and
- reduce, to the extent possible, group debt by better utilisation of group cash resources.

The project team to perform the review comprised experienced consultants, who worked in partnership with personnel from Elan's Group treasury. These combined resources provided a strong platform to ensure that the project objectives would be achieved.

US cash management approach

The following approach was adopted towards collecting information on current practices and subsidiary requirements so that a preferred cash management solution could be developed:

- a detailed questionnaire was developed and issued to each operating subsidiary, with completion

Why undertake a US cash management review?

- Pooling (known as concentration in the US) of balances is an accepted and well developed practice in the US.
- Each US subsidiary operates independently with separate cash pools and short-term investments.
- A company's US operations have undergone significant growth through merger, acquisitions or revenue growth.
- A company's plans to grow significantly its US operations over the next 24 months.
- A company's financial professionals in the US tend to focus on accounting, not cash management issues.
- It has been roughly five years since the group carried out such a review.

instructions and timetable. The information requested included specific bank account details, information on banking systems, cash flow forecast, funding details and investment details;

- completed questionnaires were reviewed and analysed and follow-up was undertaken with subsidiaries as necessary;
- based on the analysis of questionnaires, a specification of cash management requirements was developed. This set out in detail the specific requirements for subsidiaries for all banking services and cash management activities;
- solution options were identified in the context of review results;

- a preferred solution was developed that best met Elan's needs; and
- an implementation plan setting the steps required to bring the preferred solution to fruition was developed.

Findings

As a result of our analysis of the US operating subsidiaries' questionnaire responses, we concluded that Elan could optimise the value of its US cash resources, addressing both banking arrangement costs and those incurred for liquidity.

In line with Elan's expectations, we found there was a clear opportunity to reduce excess balances and to improve the liquidity management processes. Subsidiaries used multiple service

providers, their account structures were sub-optimal, and there was no mechanism in place to pool US dollars across all of the entities.

The financial institutions used for operating services were, for the most part, not core relationship banks. Instead, they had been selected by each subsidiary – in most cases before being acquired by Elan. Each subsidiary had its own individual approach to collecting, tracking, disbursing and investing cash. We found, as one would expect, inconsistent depository practices and limited utilisation of standard cash management and control techniques, such as controlled disbursement and positive pay services.

Relative to the parent there was limited use of formal treasury technology at each operating subsidiary. And, for the most part, paper-based collections – not electronic collections – predominated.

Recommendations

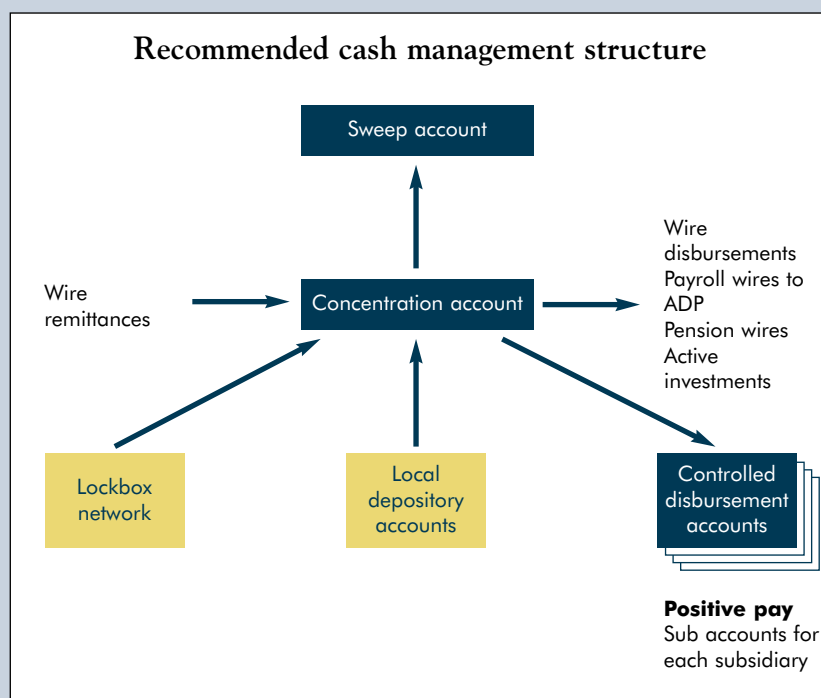
Figure 1 illustrates the broad cash management structure recommended to Elan. The main features of the structure are to:

- centralise US cash management activities by using a single concentration and sweep bank account structure (as detailed);
- centralise the management, both passive and active, of surplus cash;
- select a single bank for centralised controlled disbursement;
- for the present, use the existing lockbox network, but open lockboxes for subsidiaries with sufficient volume which do not use any;
- perform a lockbox study to ensure ideal network design;
- manage the cash management activity on a centralised basis; and
- implement appropriate treasury technology to support the banking structure.

Bank selection process

Once the optimal solution had been established, we worked with Elan to identify those relationship banks, which had substantial US cash management capabilities. Five banks were chosen. We then went on to develop a customised request for proposal (RFP) that reflected the optimal solution for Elan and solicited information to assess against predetermined selection criteria. In addition to the banks' written

FIGURE 1



proposals, we requested that they present their capabilities in a meeting involving Elan Group treasury, FTI and Treasury Strategies.

Core US cash management services are mature and fully developed. However, we were looking for web-enabled reporting and transaction initiation capabilities that could be accessed in the US and in Dublin. Other selection criteria included servicing depth in Dublin and the US, and up-to-date product capabilities, such as imaging. Among the five banks, there were varied capabilities. Based on its satisfaction of Elan's key selection criteria, Bank of America was selected to provide centralised concentration and controlled disbursement services.

Implementation process

Only a successfully implemented centralised cash management system will generate the benefits anticipated. Therefore, extra care had to be taken in creating a detailed implementation plan.

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This involved the US financial managers and representatives from Bank of America in its development and regular communication during the implementation process.

We initiated the implementation process with a series of meetings involving the US financial managers (from all of the US subsidiaries), key group treasury and tax personnel, and the Bank of

America individuals responsible for implementation.

A detailed system structure template and preliminary work plan were the basis for an in-depth discussion between Elan Group treasury and Bank of America, in which specific product requirements were finalised and specific implementation responsibilities were set. This was followed by a one-day workshop for all the US financial managers, in which they were provided a detailed description of the system review, the new system structure template and the implementation plan. They were also given the opportunity to ask questions and raise concerns. Ultimately, this enabled the finalisation of a feasible implementation plan and buy-in from the financial managers.

Elan is now in the process of implementing the centralised banking structure in the US.

We expect the implementation to be completed by mid-2001 and to begin reaping benefits for Elan Group treasury within 12 months of the review's initiation.

Importantly, as Elan acquires further US operations and grows its US dollar revenue streams, the new structure will enable rapid identification and absorption of the cash flows into the newly established cash management structure. ■

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Were there any lessons learned through the process?

- Use US cash management experts to assist in the analysis and bank selection process. They will save you time and money in establishing the appropriate structure and selecting the right provider.
- Undertake a thorough review of the current situation before attempting the design of a solution.
- Establish clear selection criteria in the consideration of banks, including the role of each bank in key relationship matters.
- Communicate the selection criteria to the bidding banks and emphasise key system management elements, such as the location(s) from which the cash position will be monitored and managed.
- Communicate early and often with local financial representatives at the operating subsidiaries, they are instrumental to a successful implementation. ■



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