

Ask the experts:

Where is your focus?

TWO MEMBERS OF THE ACT REFLECT ON THE AGENDA FOR 2009.



James Douglas,
Debt advisory partner, Deloitte

It is evident to Deloitte, a firm that regularly monitors the main concerns of chief financial officers (CFOs), that the key liquidity challenge confronting CFOs is precisely the area where corporate treasurers can add significant value. An economic downturn that is set to prove both deep and prolonged gives treasurers a real opportunity to

make a fundamental difference to their company's fortunes.

What worries the CFO also worries the treasurer. Topping the list of concerns for both are liquidity and the raising of debt, which will be crucial to survival in 2009. It's an issue that plays to the treasurer's strengths, and his or her position has become all-important thanks to the crisis relating to financing and liquidity.

CFOs recognise that the treasurer is an essential part of the corporate DNA. Prudent treasurers who refinanced at an early stage of the economic and financial crisis have already performed a valuable service.

Indeed, it is ever more evident that banks are increasingly reluctant to lend to any business unable to field a skilled treasurer and a strong treasury team. This denial of credit could result in corporate casualties extending beyond the most obviously weak companies over the next couple of years.

Our quarterly survey of CFOs confirms that most now expect a prolonged recession and are battenning down the hatches.

Latest findings suggest that 23% of companies surveyed expect to reduce the dividend in the coming year, compared with only 3% last March. And while 2010 may offer the first stirrings of revival, it could still be another grisly year and any recovery is likely to be modest rather than a dramatic bounce-back.

What are the areas on which CFOs and treasurers will focus their

attentions? Our findings suggest the three main areas will be addressing the shortage of credit, the reduction of risk as companies become more risk-averse, and reviewing means to strengthen the balance sheet. The latter will include measures to maximise cashflow and available funding by improving working capital, bolstering the confidence of investors and reducing costs through job cuts and disposals of non-core assets.

As to the sources of finance in 2009, the relatively high cost of corporate bonds suggests that equity finance may make something of a comeback in the year ahead, with a raft of rights issues likely. However, only companies that take a cautious and realistic view in assessing their prospects are likely to be successful in accessing the capital markets.

Despite the plethora of evidence that tough times lie ahead, there are still a number of companies that need to focus on becoming more match-fit. There is still evidence of complacency in the corporate market, which needs to be tackled. Sadly, unless urgent attention is given to cash and liquidity, there is the potential for more companies to follow some of the recent high-profile corporate failures.



Roger Burge, director of
treasury and corporate
finance, Cable and Wireless

In these challenging conditions, we are fortunate at Cable & Wireless to be operating in a defensive sector with little gearing.

While no one is immune from the downturn, we are not seeing the level of financial pressures affecting many sectors. Our UK business is focused on major

corporates and government, so while the health of UK plc is important to us, for many of these often global businesses, telecoms is a necessity rather than a luxury.

Our international businesses are more consumer-focused, and include a number of tourist destinations and offshore financial centres, where demand will inevitably be impacted to some extent. Our diverse geographic and market exposures provide us with some protection, but individual country risk and local bank counterparty exposures are a focus.

As early as 12 months ago, we prepared the businesses for difficult times, using scenario planning to see how bad things could get, and how we would mitigate the consequences.

This exercise has been a useful catalyst for sharpening our focus on the basic business disciplines of cost control, capital investment

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criteria, working capital and cash management.

Turning orders into cash quickly and reliably is key in this environment. As the order-to-collect cycle is fairly long in telecom services, we have to get our service delivery and billing spot-on, as the collections team can only swing into action once they have an agreed bill to collect.

While we ourselves have no pressing liquidity issues, the credit crisis may well affect some business customers' ability to finance their continuing demand for our products, some of which provide customers with opportunities to reduce their long-run cost base. Asset-backed finance from the banks is a solution, but the capacity is limited and the cost is high. The new reality is that pending the restoration of normal credit flows from the banking system, companies have to maximise internal cashflow generation if they are to be able to finance capital expenditure.

In merger and acquisition, the pendulum has swung back in favour of trade buyers. Further consolidation appears likely in many sectors. 2009 is going to be a challenging time for many smaller telecoms operators, which have a less robust credit profile than the large network-based operators like ourselves.

Market conditions could well prove too great a challenge for some of these players, so we could see a number of distressed

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telco assets coming onto the market during 2009.

With governments throwing everything at stimulating the economy, I think we'll avoid an extreme downturn but I can't see credit rationing easing any time soon. To get the credit that they need, telco treasurers will have to manage banking and investor relationships very carefully, and work with their colleagues throughout the business to ensure that banking cases are rock-solid.

In the new world of intense competition for every pound of bank credit, it is cash generation that will be the key to success.

James Douglas is chairman and Roger Burge is a member of the ACT's event and publishing committee.

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