Winner

World class

Rolls-Royce

LAST YEAR, THE ROLLS-ROYCE TEAM SUCCESSFULLY ISSUED A £500M BOND AND COMPLETED A $200M PRIVATE PLACEMENT. IT ALSO RATIONALISED ITS VAST GLOBAL CASH MANAGEMENT OPERATION, ROLLING OUT INTERNET-BASED BANKING PLATFORMS TO IMPROVE TRANSPARENCY AND LIQUIDITY.

Rolls-Royce

WHY THEY WON
Whether working on complex risk management, introducing supplier finance programmes, raising money from the capital markets or overhauling its global cash management, this team offered well-planned and well-executed performance.

A large, complex global business needs a good treasury department. At Rolls-Royce, where engineering excellence is at the heart of the company culture, the treasury department is as well engineered as any.

Based in Derby, the Rolls-Royce treasury team has operations in the US, Germany and Norway. The 22 people in the team take care of more than 150 subsidiaries scattered all around the globe, and their long list of responsibilities includes pensions risk management.

The treasury team is used to dealing in large numbers. Group turnover is around £10bn but the dealing team handles a hefty number of transactions, adding up to £85bn a year.

It is clear that the Rolls-Royce team is held in high esteem by the banking community. It manages a huge and sophisticated risk management programme, mainly for foreign exchange. It has also re-engineered its commercial banking operation and has had a key involvement in the group's pension de-risking process.

Group treasurer Mark Morris says that 2009 was fairly challenging for his treasury team, as for many other treasuries dealing with the fall-out from the credit crisis as it hit the non-financial economy. Rolls-Royce raised money by issuing a £500m 10-year sterling bond; it went well for the group and was oversubscribed six times. The treasury team also completed a private placement in the US, raising a further $200m for the company's engine leasing business.

According to Morris, Rolls-Royce found itself in a "sweet spot", with its single A credit rating providing comfort for risk-averse investors at an acceptable yield. He says: "It is fair to say that we were one of the companies that were sitting at the right part of the rating spectrum. We saw a flight to quality, with investors also wanting to generate a yield, so people were looking for a home for their money." The company has no immediate plans for raising further capital but Morris says the treasury team keeps a watchful eye on the markets.

While raising money has been key, the biggest project that the treasury team has recently undertaken is one designed to rationalise a global banking operation for cash management. The group's cash management arrangements used to involve working with 65 banks in 25 countries with more than 400 bank accounts. By the time the project is completed that will have been slimmed down to under 10 banks and the group will be taking full advantage of technologies such as SWIFT and other internet-based banking platforms to improve transparency and liquidity.

Morris makes the point that under the project leadership of Hylda Wilson, the group's head of global banking, Rolls-Royce spent 12 months just doing its homework. Morris says: "We looked at what was in the market and we looked at what other corporate users had been doing and learnt from their experiences."

A number of banks said the resulting request for proposals (RFP) was the most comprehensive they had seen. Morris says that desire to do the research properly is the result of the ingrained company culture, "part of the engineering DNA". Last year the project plan saw the selection of the global cash management banking group; this year will be about implementation.

The Rolls-Royce treasury team handles a wide variety of work. Current tasks include: commodity hedging in the financial and physical markets, supply chain financing, working with distressed suppliers, and economic modelling when setting company strategy for suppliers, site selection, defence and aftermarket contracts. The treasury team is well integrated with the business.

It can only be seen as a compliment, although it's not always one that Morris welcomes, that the treasury team seems to land up working with some of the more intractable financial problems.

Given the treasury team's culture of being prepared and open in tackling new problems, it should come as no surprise that it has an extensive development programme, which draws heavily on the ACT's education and training programme. Rolls-Royce also contributes to wider professional development, most recently working with the FSA, the European Commission and the EACT/ACT on resolving problems with proposed reforms to OTC derivatives.

The last year has seen governance rise to the top of the agenda, putting treasury departments in the spotlight. The importance of treasury to the survival of the organisation is appreciated as never before. The Rolls-Royce treasury team stands up to such scrutiny and as such is an example to and for the whole profession.

Winner

The X factor

ITV

AGAINST A BACKDROP OF CORPORATE RESTRUCTURING, WITH SUPPORT FUNCTIONS BEING DOWNSIZED AND REORGANISED, THE ITV TREASURY TEAM PERFORMED BRILLIANTLY IN PROACTIVELY MANAGING FINANCIAL RISK, RESCHEDULING DEBTS FALLING DUE WHILE AVOIDING RESTRICTIVE COVENANTS.

WHY THEY WON

Thanks to a successful finance raising led by the treasury team, the company decided against a rights issue, improved working capital management and ended up with a stronger balance sheet.

As the UK's biggest commercial television producer-broadcaster, more than 70% of ITV's revenues is generated from TV advertising and sponsorship. The business has a high degree of operational gearing, is exposed to the economic cycle and is highly regulated. It competes for advertising revenues with other commercial channels and other forms of display advertising, particularly online. These factors, combined with technological change and the migration from analogue to digital TV, have seen the business's profitability decline since 2005.

ITV has balanced business risk with a cautious approach to financing and its key financial policy has been to fund long term and covenant-free from the capital markets at least two years ahead of need. It has supplemented this position by maintaining an undrawn £450m syndicated bank facility.

The recession and a sharp rise in its pension scheme deficit saw ITV's credit ratings decline from BBB-/Baa3 in July 2008 to B+/B1 by last September. As the credit crunch tightened, there was an effective hiatus in bond issues by sub-investment grade corporates. And ITV was unwilling to rely on its syndicated bank facility given the risk that it might breach associated financial covenants, which were unlikely to be relaxed in prevailing credit market conditions.

Alongside an aggressive cost-saving programme, ITV ran initiatives during 2009 to strengthen liquidity, extend its debt maturity profile and improve its financial ratios. These initiatives consisted of raising further covenant-free finance without going to the public markets, improving working capital management and selling non-core businesses. The ITV board also confirmed in early 2009 that it could not rule out a rights issue.

In February 2009 the company concluded a £50m net financing deal under a structure with a bank. This provided 10-year covenant-free finance, and was followed up in March with a tap of its existing £325m 2015 bond, raising £58.5m.

Charles van der Welle, ITV's director of treasury, says: "The funds raised from these exercises, combined with existing cash, gave ITV a better negotiating position to approach holders of its €500m 2011 bonds for an exchange offer. It launched this offer in June in improved market conditions, after over six months of planning. Bondholders were offered an exchange of existing bonds for 30% cash at par [compared with pre-offer market pricing in the low 90s] and 70% into a new issue of five-year bonds.

"ITV's targeted 50% acceptance was achieved, with 54% taking up the offer. These three transactions were key in changing both debt and equity investor sentiment towards ITV's liquidity position and played a part in the share price recovery."

Accompanied by a positive trading update and improved capital market conditions, it enabled ITV to price a £135m seven-year convertible bond in October on attractive terms. The success of the financing and working capital exercises enabled ITV to announce the retention of SDN, a valuable business it had put up for sale earlier in 2009. The company also avoided an expensive and risky rights issue, and its balance sheet ended the year in much better shape than it began. Towards the end of 2009, ITV was in a position to buy back £175m of short-term borrowings from its cash resources. Scheduled debt repayments (post-swaps) through to 2014 now stand at less than £250m, compared with around £700m at the start of 2009.

Kevin Buck, executive director at Fortis Bank, says: "Throughout a long period of turbulence for ITV and the media/broadcasting sector, the treasury team has proactively and innovatively worked to secure the company's liquidity position.

"The team rescheduled debts becoming due for repayment while avoiding restrictive financial covenants, delivering real value and support for the share price when these achievements were announced to the market. They are even more impressive given the backdrop of corporate restructuring with downsizing and reorganisation of support functions."

James Douglas, a corporate finance debt advisory partner at Deloitte, adds: "The bond exchange successfully termed out ITV's debt at a time when primary issuance was extremely challenging. The company incentivised bondholders to participate in an exchange through an innovative structure utilising a modest amount of surplus cash. ITV's proactive management of refinancing risk was well received by the wider debt and equity markets – especially relevant given uncertainty around the timing and extent of recovery in the television advertising market."