PHOTOGRAPHER: ROGER HARRIS

TIM BOND, GROUP TREASURER FOR CAMELOT UK LOTTERIES, TELLS **GRAHAM BUCK** HOW THE NATIONAL LOTTERY OPERATOR PLANS TO EXPAND UNDER ITS NEW OWNER.

The realm of Camelot

It's now more than 16 years since the "It could be you…" slogan marked the launch of the National Lottery in Britain. Sales have remained buoyant despite the economic downturn and a worldwide trend of slowing lottery sales, with the company's interim results to September 2010 showing total sales of £2.7bn, a like-for-like increase of 4.6% on the same period a year earlier. However, group treasurer Tim Bond – who, like all employees and their close families, is not permitted to play himself – says that this success, rather than demonstrating that the business is recession-proof, underlines the effectiveness of Camelot's long-term strategy for growth. This approach – which is based on offering an enhanced range of games and focusing on innovation – has resulted in a 14.4% increase in sales over the last five years.

Bond was approached about the position in 2010, as the contest to become the new owner of Camelot was concluding. Camelot had been owned by five shareholders, each with a 20% stake. After they reviewed their holdings, the company was put up for sale. The winning bid – £389m from Canada's Ontario Teachers' Pension Plan (OTPP) – was accepted last March and the deal gained regulatory approval four months later.

Bond says the takeover opens up exciting prospects for Camelot, whose renewed 10-year UK licence as National Lottery operator now runs to 2019, with a possible five-year extension to follow. "OTPP has ambitions to own a number of local and national lotteries around the world and for Camelot to run them," he says.

At home, the organisation has been attempting to add commercial services, such as bill payments and mobile top-up services, to its lottery business and expand the use of its network of 28,500-plus lottery terminals. So far its efforts have been provisionally blocked by the regulator, the National Lottery Commission, which is considering further market analysis and legal opinion submitted by Camelot to demonstrate that its plans will not contravene EU competition law.

The company stresses that its aim to increase revenue through diversification is linked to its main objective of maximising returns to good causes, which would receive 80% of Camelot's profits from commercial services. Camelot's returns around 40% of total sales to society; the good causes receive around 28% and the government 12% in lottery duty.

With its new owner's backing, Camelot has embarked on efforts to add other operators to its portfolio. Last August it bid to take over the Illinois state lottery, but lost out to rival Northstar in a contentious decision by the state governor. Camelot lodged an appeal. "We believe that the tender process was inequitable and the incumbent had information that wasn't made available to us," says Bond.

Bond began his career as a chartered accountant, joining Binder Hamlyn at its St Albans office in 1993 only months before the firm was taken over by Arthur Andersen. "For me it was a positive change, bringing the opportunity to work with a wider, higher-profile range of clients and projects, including a secondment to Andersen Consulting," Bond recalls.

It was only when the Enron scandal began to unfold in 2001 and Andersen's role as the energy trader's auditor began to threaten the audit firm's own future that Bond looked elsewhere. "I had the options either of moving to London or accepting a pay-off, and I decided on the latter."

He then moved to AWG, parent of the utility Anglian Water, at its Huntingdon office in September that year. "I actually started there the day before the 9/11 terrorist attacks, when the group was about to embark on a refinancing to ring-fence the water business and separate it from its non-regulated construction and other activities. They needed someone technically up to date for the project, covering the various legal and tax angles as well as the accounting."

As part of a sizable project team, Bond devised a step-by-step plan for the complex £3.5bn refinancing. It involved £1.8bn of new debt and £1.7bn transferred from other group companies, with a further £500m returned to shareholders. Although not used, a plan B that assembled £700m in backup facilities if required was also completed.

"All this served as a sharp introduction to treasury and my work steadily morphed into the ongoing treasury operation. This included an index-linked bond which won a Deal of the Year Award," says Bond. "Around this time IFRS was coming in as a driver. We wanted to further increase index-linked exposure without using swaps because of the profit and loss volatility. Issuing using a structured finance solution gave the market the fixed-rate debt it wanted and gave us the exposure we wanted, while satisfying the hedge accounting requirements.

"Putting IFRS in place for the company broadened my role. Many assessments had to be made for the very first time, such as judging the reasonable lifespan of a water pipe before it needs replacing."

After four years at AWG, he moved to become assistant treasurer at FTSE 100 engineering and IT group Invensys, which was just emerging from a turbulent period. A £2.7bn refinancing and disposals programme had averted collapse, but the group was "still straining under the weight of debt". Bond adds: "Invensys was special, in that it shared many of the problems and complexities of a large multinational, but without the scale of some of its FTSE 100 peers."

Treasury worked at moving the group further along the road to recovery. In 2006 a further £700m refinancing and £341m rights

issue relieved some of the pressure from a restrictive deal of two years earlier and enabled high-yield debt to be paid off ahead of senior debt.

"Conditions remained very tight for acquisitions and dividends, though, which led to a third refinancing in 2008, the aim being to move towards investment-grade covenants," says Bond. "By this time the credit crunch had taken hold, which made for some tense negotiations, although the £350m deal was oversubscribed and subsequently upped to £400m. Against a bleak economic backdrop, Invensys was bucking the trend, with debt cleared, cash continuing to be generated and an improved credit rating, which all helped to attract a supportive group of international banks.

"Invensys' activities worldwide created significant FX exposures, with roughly 40% of sales in dollars and 30% in euros," says Bond. "Part of my work involved overhauling the group's systems for monitoring and reporting on FX and derivative exposures, which was complicated. We outsourced treasury back-office operations to India in 2008 as part of a wider initiative to outsource financial processing, and at head office we led the way in demonstrating the effectiveness of the model."

Bond says that his current role at Camelot again involves large figures. "Last year's total turnover was £5.45bn, although, as we operate on very fine margins, the operating profit was just under £45m." In other respects, though, the treasury department at Camelot is very different from his previous companies.

"We look after cash from start to finish – from credit control, collection and liquidity management through to prize payments," he says. "The treasury team comprises 13 individuals in all and we deal with a high volume of transactions, collecting around 14,000 payments per week from our retail partners."

He adds that, as a relatively new company, Camelot is well automated. "From our early days when we had five owners, we've been able to draw on a pool of expertise and avoid legacy issues.

"Another feature is our fast-growing internet business. We run the world's biggest online lottery, taking around three million payments per month via the internet and the transaction fees that we pay for this are a continuing area of focus. We have very secure online payment systems but are conscious of the need to remain vigilant. The recent Wikileaks-related hacking attacks on the major credit card companies emphasised the vulnerabilities of e-commerce."

The company's first overseas venture is a consulting business in the US that works to increase the returns to the local education system through the California state lottery.

"We are 18 months into this four-year contract, which has proved very successful," says Bond.

Bond took the ACT's MCT qualification last year, which he describes as "intensive but very useful in bringing together all of the knowledge that I've accumulated". Another member of the treasury team is now completing the ACT exams and others are being persuaded to follow. "As Camelot becomes a broader and more international business, the learning provided by the ACT courses will be increasingly valuable," Bond says.

Quick-fire quotes

WORDS YOU MOST OFTEN SAY TO YOUR CFO? Hard to get through a meeting without "You need to sign this…"

DOES A DOUBLE-DIP RECESSION OR GROWTH LIE AHEAD? Slow growth and lingering uncertainty.

DEBT OR EQUITY? I racked up 10,000 words on this for the MCT project, but in short: horses for courses.

FIXED OR FLOATING INTEREST RATE? Depends on the hit that the group, its credit rating and its covenants can afford to take.

DEAL YOU ARE MOST PROUD OF? I've been fortunate enough to be closely involved with several Deals of the Year, but Anglian Water Services' structured £400m index-linked issuance in 2005 was a satisfyingly elegant, IAS 39-friendly and cost-effective solution to raising one form of debt when the market wanted another.

MOST VALUABLE PART OF THE ACT QUALIFICATIONS? I went straight into MCT and found it really helpful in taking a more rounded and strategic view. It's also a very comprehensive syllabus, so when I needed to bootstrap a yield curve and calculate some forward rates for a leasing proposal, fortunately I had the notes to check my maths!

REASON FOR ATTENDING ACT CONFERENCES/EVENTS? Great for networking, and to share knowledge and approaches to current issues.

BLACKBERRY, IPHONE OR GADGET THAT IS ALWAYS WITH YOU? The BlackBerry's winking red light is hard to ignore.

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