THE ART OF EXECUTION

THE TREASURER'S DEALS OF THE YEAR AWARDS 2013 REVEALED THAT TREASURERS CONTINUE TO SET THE HIGHEST STANDARDS OF FINANCIAL MANAGEMENT IN WHAT THEY DO

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Lesley Flowerdew is tax and treasury director at engineering and design consultancy WS Atkins and chair of the Deals of the Year Awards judging panel

The liquidity flowing through the markets in 2013 brought good opportunities for corporate treasurers, particularly those working for large companies. Both investment-grade and speculative-grade corporates took advantage of yield-hungry investors' appetite for their bonds and tapped the markets with ease, securing funding at very attractive rates. In the US, Verizon Communications' $49bn mega bond issue stole the show while IT giant Apple pulled in an impressive $17bn with its bond issuance earlier in the year.

Closer to home, the UK and European treasury teams nominated for *The Treasurer*'s Deals of the Year Awards 2013 managed to secure over £150bn in funding between them. More than 120 deals were nominated for awards by treasury teams and their banking and professional advisers, giving the judging panel plenty to reflect on. The bond categories were particularly closely fought, reflecting the widespread activity in that marketplace last year.

In 2013, there were some individual examples of pioneering excellence (read about the winner of the corporate finance category and overall winner of the Deals of the Year Awards, on page 20) and, in general, the judges were impressed with the ever-increasing professionalism of corporate treasury and treasurers' adeptness at executing bold and ambitious deals.

Treasury is a difficult and complex role that requires a broad range of technical and personal skills. As a result, treasurers have to work hard at making it look easy to achieve very complicated tasks. So it was challenging to select the worthy winners and runners-up from the large volume of high-quality entries that were submitted to the awards. Those treasury teams – and, indeed, all the teams that were nominated – can feel justly proud of their achievements.

I would like to thank the members of the judging panel (see page 21) for their generosity with their time and insight during the judging process. I am also grateful to Lloyds Bank for continuing to sponsor the awards. In addition, I would like to congratulate the ACT for continuing to run this very successful awards programme from year to year.

I look forward to seeing even greater treasury excellence in 2014.

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Corporate finance category and overall Deals of the Year Awards winner

ARQIVA

REWRITING THE RULES

UK TELECOMMUNICATIONS INFRASTRUCTURE PROVIDER ARQIVA MADE WAVES WITH THE LARGEST-EVER WHOLE-BUSINESS SECURITISATION REFINANCING IN THE UK OUTSIDE THE REGULATED UTILITY SECTOR

Deal highlights

Issuer: **Arqiva**

Amount: **£3.65bn**

Structure:
WBS comprising:
£1.6bn of three- and five-year term loans
£500m of five-year working capital and revolving credit facilities
£200m of super-senior liquidity facility
£750m senior investment-grade bond issuance (£350m, 7yr; £400m, 20yr)
£600m junior high-yield bond issuance (7yr)

Rating (at time of deal):
Senior debt – BBB (Fitch)/ BBB (Standard & Poor's)
Junior debt – B- (Fitch)/ B3 (Moody's)

Blended debt cost: **5.6%**

What the judges said

"Arqiva was a standout. It was such a complex deal."

Arqiva director of treasury and corporate finance Roger Burge: "What we did in this transaction is we 'IPOed' Arqiva into the debt market"

Last year, privately owned telecommunications infrastructure provider Arqiva delivered a masterclass in how to secure a whole-business securitisation (WBS) refinancing. In February, it completed the largest-ever transaction of this type in the UK outside of the regulated utility sector, raising £3.65bn in debt. The transaction involved 19 lenders, the UK's biggest-ever sterling B- rated bond issue and its largest index-linked swap restructuring and refinancing. The transaction delivered seven times leverage at a blended capital markets debt cost of 5.6%. Shareholders supported the transaction with an £867m contribution, of which £400m was new money.

In total, the refinancing transaction comprised £1.6bn of three- and five-year term loans, £500m of five-year working capital and revolving credit facilities, £200m of a super-senior liquidity facility, £750m in senior investment-grade bond issuance and £600m in junior high-yield bond issuance.

Arqiva's refinancing began in November 2010 and took 28 months to complete. During that period, the company hired advisers, prepared its financial disclosures to comply with Rule 144A of the US Securities Act, undertook thorough commercial and financial due diligence, acquired credit ratings, ran a bank request for a proposal process and managed a bond issuance.

Once the refinancing was closed, Arqiva was able to pay off its existing debt, put in place new capex and working capital facilities, roll over its hedging portfolio and set up a new long-term investment-grade issuance programme. As a result, it could continue to access the bond markets to pay down its newly acquired three- and five-year term loans.

The deal stood out for its innovative structure, which involved short-dated loans sitting outside a securitisation ring-fence and being on-lent to the WBS over a longer period, thereby mitigating refinancing risk within the WBS itself. In addition, Arqiva restructured its large, off-market inflation and interest rate hedging, providing greater certainty to the company in the long term.

"With the benefit of hindsight, what we did in this transaction is we 'IPOed' Arqiva into the debt market," says Arqiva director of treasury and corporate finance Roger Burge. "We took a company that was privately owned and financed by a bank facility to the public debt markets very successfully."

During the transaction, Arqiva's treasury team had to juggle a number of complicated and challenging workstreams across derivatives, high-yield bond markets, credit ratings and public debt market issuance. "Each of those workstreams was a challenge in itself and needed to be perfectly executed," says Burge. "The real success was bringing it all together."

Key to pulling off the deal, adds Burge, "was the level of interest and appetite that we generated through the marketing we did and the amount of time that management spent talking to banks about the transaction". His advice for other treasurers considering a similar exercise is to start early, use experienced advisers, run workstreams in parallel, don't underestimate the documentation workload and don't turn down any bank that wants your credit.

The bank that nominated Arqiva for this award praised its treasury team on "managing a complex deal". It added: "Ultimately, this paid off, resulting in the company successfully accessing the capital markets, restructuring its swap portfolio and positioning itself on a stable funding platform for growth."

Corporate finance category
Highly commended
THOMAS COOK

TURBULENT TIMES

THOMAS COOK'S TREASURY TEAM HELPED TO SECURE A SAFE LANDING FOR A TRAVEL GIANT CONFRONTED WITH A WALL OF DEBT

Judges praised travel company Thomas Cook for dismantling a £1.6bn 'ticking debt time bomb' in 2013, with an ingenious refinancing package comprising a €525m eurobond, a £425m rights issue and a £691m bank loan. This was no mean feat given that the company's market valuation was just £150m in July 2012.

Thomas Cook's 'wall of debt' was undermining the confidence of customers, suppliers, regulators and banks, hampering its ability to trade normally. The company struggled to secure essential services such as credit card processing, direct debits, and bonding and hedging lines. Meanwhile, it suffered liquidity issues as a result of essential suppliers demanding cash up front.

In completing the transaction, Thomas Cook's CEO, CFO and treasury team operated in an environment of intense pressure where the number of supportive relationship banks was diminishing. A debt-for-equity swap was widely expected, yet management persevered with a capital-market solution to preserve and enhance value for shareholders. The deal required the contemporaneous support of three distinct financing groups.

Although the transaction was complex, it was speedily executed and ensured the survival of an iconic company and brand. Recapitalisation has given management breathing space to execute its essential business transformation plan.

How the awards were judged

In each category, we consider all types of deal, whatever their size or complexity, and judge them according to our criteria of sound treasury management, efficient pricing, optimal and innovative structures, and relative success in prevailing market conditions. The team awards recognise treasury teams' considerable and enduring contributions to their companies.

Year of the hybrid

Corporate hybrids are structured as standard coupon-paying bonds with an option to convert them into equity at a later date. Last year was noticeable for the swathe of hybrid financing structures issued by companies and there was record issuance of euro-denominated hybrid bonds. While we did not select a hybrid deal as winner or runner-up in the corporate finance category of the Deals of the Year Awards 2013, some significant deals took place in a market that had been comparatively quiet until recently.

Several well-known names issued hybrids in 2013, including French supermarket group Casino Guichard-Perrachon, Spanish telecommunications provider Telefónica and European utility companies DONG Energy, EDF and RWE. In March 2013, UK power grid operator National Grid issued €1.25bn and £1bn in hybrid bonds while water company Pennon raised £300m through a hybrid bond with a 6.75% coupon.

Meet the judging panel

The Treasurer's Deals of the Year and Treasury Team of the Year Awards 2013 were judged by:

Lesley Flowerdew
tax and treasury director, WS Atkins (chair)

Julie Fabris
group treasurer, Birds Eye Iglo

Clare Francis
managing director of global corporates, Lloyds

Paul Johns
head of tax and treasury, Selecta

Philip Learoyd
head of funding and treasury risk, SABMiller

Jesús Martínez Perez
director of finance and treasury, Iberdrola

Peter Matza
engagement director, ACT

Richard Sedlacek
managing director, Rothschild

Harriet Warr
assistant manager – capital markets, National Grid

Paul Watters
head of corporate credit research, Standard & Poor's

Henryk Wuppermann
head of corporate finance, E.ON

Bonds above £500m category winner
ROLLS-ROYCE

BRAND POWER

ROLLS-ROYCE CAPITALISED ON ITS NAME AND INFREQUENT VISITS TO THE CAPITAL MARKETS TO ISSUE £1BN IN A DUAL-TRANCHE EURO AND STERLING BOND TRANSACTION

Deal highlights

Issuer:
Rolls-Royce

Amount:
£1bn equivalent

Structure:
Dual-tranche euro and sterling senior unsecured bond

Rating (at time of deal):
A3 (Fitch)/
A (Standard & Poor's)

Currency and tenor:
€/8yr; £/13yr

Interest rates:
2.125%; 3.375%

What the judges said

"It was a good deal. They're a recognised name and they played a strong hand well."

Rolls-Royce group treasurer Mark Thompson: "It was purely opportunistic. We didn't have to go, but it seemed a sensible thing to do"

FTSE 100 engineering company Rolls-Royce capitalised on its formidable brand, credit rating and reputation when it issued £1bn equivalent in a dual-tranche euro and sterling bond transaction in June 2013.

"We tend to run a conservative balance sheet," explains Mark Thompson, Rolls-Royce's group treasurer. "We actively target an A rating and we carry a relatively high level of liquidity because we're in a long-cycle business. We tend to go to the capital markets for longer-dated borrowing and overlay a bank revolving credit facility on top."

By last year, the latest maturity that Rolls-Royce had for its debt was 2019. "For a long-cycle business, the weighted average maturity of our liquidity was starting to get a bit short," says Thompson, "and we had a couple of smaller facilities that were coming to maturity at the end of 2013 and start of 2014." So the company decided to take advantage of tight market pricing to raise more debt. "It was purely opportunistic," confirms Thompson. "We didn't have to go, but it seemed a sensible thing to do."

Unfortunately, the issuance coincided with what Thompson describes as a "choppy" time in the markets in what was otherwise a fairly benign year. "You end up with a 'Do I go?' or 'Do I not go?' dilemma," reveals Thompson. "We decided to go, which was the right decision. But perfect timing would have been a week or so earlier before the market got choppy."

The euro bond raised €750m at a coupon of 2.125% and it had an eight-year tenor. Meanwhile, the sterling bond fetched £375m with a coupon of 3.375% and a 13-year tenor. The low level of recent issuance in the sterling market at the time boosted demand for the bond, as did Rolls-Royce's rarity as an issuer. It had last accessed the sterling market in 2009 and the euro market in 2004.

Issuing more in euros than in sterling wasn't pre-planned, Thompson reveals. "I wanted to raise £1bn equivalent with a weighted average maturity of around 10 years, but with quite a degree of flexibility on when the maturity could be. We deliberately targeted the euro market and the sterling market at the same time. I wanted a benchmark euro deal out there because we had not been in that market for a while. I also wanted to be able to get price tension between the two markets."

"We deliberately targeted the euro market and the sterling market at the same time"

Thompson acknowledges that Rolls-Royce's credit rating, brand name and rarity as an issuer were advantageous when tapping the markets. "As a treasurer, it's fortunate to have that sort of flexibility and power to your elbow," he says.

The bank that nominated Rolls-Royce for the award complimented its treasury team for achieving "eye-wateringly tight credit spreads in both markets, good level of oversubscription and minimal marketing effort". It also praised it for managing to navigate the euro and sterling markets to get the best possible outcome from a dual-currency deal. The deal was a "classic dual-currency execution from a super-rare and prestige borrower", said the bank.

Rolls-Royce used the money raised for general corporate purposes, including the refinancing of upcoming loans.

HIGHLY COMMENDED
Deutsche Annington

Private-equity-owned residential landlord Deutsche Annington raised €1.3bn with a euro bond to repay an existing term loan in July 2013. The deal was notable since Deutsche Annington was the first German real estate company to issue an unsecured corporate bond issuance with an investment-grade rating (BBB from Standard & Poor's). Demand for the issuance was strong from both continental European and UK investors.

Not only did its debut bond issuance broaden Deutsche Annington's funding options, it also reduced the company's refinancing costs and extended and smoothed its maturity profile. In addition, the transaction laid the foundation for further unsecured bond issuances with the company going on to issue $1bn in the US and a €4bn euro medium-term note programme.

Bonds below £500m category winner

PENDRAGON

MOTORING AHEAD

A STRONG MANAGEMENT ROADSHOW HELPED AUTOMOTIVE RETAIL GROUP PENDRAGON TO DRIVE THROUGH A HIGH-YIELD BOND THAT WAS BELOW BENCHMARK SIZE

Automotive retail group Pendragon made its debut public bond issue in 2013 with a £175m, seven-year, high-yield bond. Although the issue was well below benchmark size, the transaction was still eight times oversubscribed. Alongside the bond, Pendragon simultaneously secured a £145m four-year revolving credit facility.

Pendragon had no UK or European peers with comparable bonds, which meant that management had to use its roadshow presentation to persuade investors to price the issue close to tightly trading US companies and better rated UK corporates. The bonds have a call structure that enables them to be called at a relatively small premium of 50% should the company want to repay the bonds early in light of its strong cash generation. Meanwhile, the covenants were drafted so that there are no limits on stocking finance, which is Pendragon's primary source of capital investment.

Ultimately, the bond priced with a coupon of 6.875%, well below expectations. The transaction was completed in April with impeccable timing – within six weeks, bond investor sentiment had weakened and pricing had risen by about 1% for similarly rated companies.

The new bond and bank financings enabled Pendragon to repay its expensive legacy bank facilities and US private placement (USPP) notes, which had been amended and extended under challenging conditions for auto dealerships in 2009 and 2011. The company had been paying Libor + 3.25%-3.5% for its bank funding and between 9.31% and 9.834% for its USPP notes. In addition, the company had a complex, restrictive debt capital structure, with onerous undertakings and financial covenants, including a minimum EBITDA covenant.

A margin of 3.5% will initially apply to the bank facility, but it will reduce as the ratio of net debt to underlying EBITDA (after stocking interest) falls. Under the refinancing, the 17-strong bank group was trimmed to a more manageable core group of four supportive relationship lenders.

Tim Holden, Pendragon's FD, attributes the success of Pendragon's bond issuance to the following factors: "We were a new issuer and potentially going to be seen as a business in a cyclical industry. But we portrayed to people correctly that there is a lot of stability in what we do. We weren't too constrained in the quantum – we raised £175m, which was suitable for us. And the pricing was very good."

Deal highlights

Issuer: Pendragon

Amount: £175m

Structure: High-yield bond

Rating (at time of deal): B2 (Moody's)/B+ (Fitch)/ B+ (Standard & Poor's)

Currency and tenor: £/7yr

Interest rate: 6.875%

What the judges said

"Pendragon was excellent. It was really good, all-round treasury management and diversified funding in a cyclical sector."

SPECIAL RECOGNITION
Knightstone Housing Association

Knightstone Housing Association became the first unrated UK housing association to issue a publicly listed bond in September 2013. It raised £100m with an innovatively structured bond that incorporated a four-year drawdown period, enabling the association to get funding when it is expected to be needed. Meanwhile, interest is not payable on the undrawn amount. The bond's unique structure avoids the cost of carry associated with securing funding now, which is a barrier to many smaller issuers. It also provides certainty in the cost of funding by removing exposure to future rises in gilt yields and credit spreads.

HIGHLY COMMENDED
Rentokil Initial

In October 2013, pest control giant Rentokil Initial achieved its lowest-ever coupon with a 'drive-by' issuance. Although an investor roadshow had been timetabled, Rentokil's board authorised earlier issuance after swap rates fell in the wake of US Federal Reserve chairman Ben Bernanke announcing that tapering of quantitative easing was not about to begin. An investor call was arranged with three hours' notice, and by the time the books were closed the following morning, the issuance was three times oversubscribed. Rentokil raised €350m with a coupon of 3.25% for its eight-year bond.

Loans above £750m category winner

DE MASTER BLENDERS 1753

A PERFECT BREW

THE PROCESS OF SECURING €3BN IN ACQUISITION FUNDING WENT SMOOTHLY FOR COFFEE COMPANY DE MASTER BLENDERS 1753

Deal highlights

Issuer:
DE Master Blenders 1753

Amount:
€3bn

Structure:
€1.25bn three-year term loan
€1.75bn five-year term loan

Rating (at time of deal):
Ba3 (Moody's)/
B+ (Standard & Poor's)

What the judges said

"DE Master Blenders 1753 reopened the leveraged loan market for larger deals. It looked like a clean, well-executed transaction."

DE Master Blenders 1753 VP and treasurer Leo Burgers: "It was a team effort"

Netherlands-based coffee company DE Master Blenders 1753 won this category by arranging the largest integrated bank and institutional investor loan since 2007. In total, DE Master Blenders 1753 raised €3bn and secured a €300m five-year revolving credit facility to boot. The transaction was a joint venture between the coffee company and an investor group led by German consumer products investment company Joh A Benckiser.

The deal stood out because it was, as the coordinating bank put it: "A rapidly executed deal for a highly levered asset with no predefined bank group to support bank tranches." Nevertheless, strong support from bank and institutional investors resulted in the transaction being oversubscribed.

DE Master Blenders 1753, which owns the Douwe Egberts coffee brand, was spun off from US consumer goods company Sara Lee and listed on the Amsterdam stock exchange in July 2012. But it had a challenging first year that included the unexpected resignation of its chief executive. Joh A Benckiser was a minority shareholder in DE Master Blenders 1753 with a 15% holding when it approached the Dutch company in March 2013 about buying out the remainder of the shares.

The treasury team of DE Master Blenders 1753 worked closely with Joh A Benckiser to secure the necessary financing. "It was a team effort and a lot of people were involved in this transaction," confirms Leo Burgers, VP and treasurer of DE Master Blenders 1753.

Joh A Benckiser needed committed financing to secure the buyout and this entailed overcoming a number of obstacles. These included getting an acquisition funding facility in place rapidly and on a confidential basis to reassure both boards; avoiding being locked into expensive long-term funding as a result of DE Master Blenders 1753 having a highly levered credit profile post acquisition; and both companies working with relatively small existing bank relationship groups.

> "We went from being a solid corporate credit to a non-investment-grade company"

"From our end, the challenge was that DE Master Blenders 1753 was a solid, investment-grade company, so attracting financing at acceptable pricing levels had not been an issue in the past," says Burgers. "As a result of this acquisition, however, we became more leveraged. So we went from being a solid corporate credit to a non-investment-grade company, which evidently required a change of mindset."

But DE Master Blenders 1753 succeeded by clearly explaining its deleveraging plans and intention to progress from its Ba3/B+ credit rating to an investment-grade rating over the course of two to three years. "We had lots of presentations and bank meetings in the lead-up to the acquisition," Burgers reveals. The DE Master Blenders 1753 management team was positioned as 'best in class' while the tranching of the deal brought down its average life. The deal consisted of a three-year €1.25bn term loan as well as a €1.75bn five-year term loan that was marketed purely to institutional investors. Following the transaction, DE Master Blenders 1753 emerged with a largely new banking group.

HIGHLY COMMENDED
Smurfit Kappa

Irish packaging company Smurfit Kappa impressed with its syndicated €1.375bn five-year term loan and revolving credit facility. The term loan was for €750m, the revolving credit facility €625m. The transaction marked the company's first foray into the corporate loan market since it went private in 2002. It also represented the culmination of its transition from a secured leveraged issuer to a corporate unsecured borrower. At the time of the deal it was rated BB+ (Fitch)/ Ba2 (Moody's)/BB (Standard & Poor's).

The refinancing meant Smurfit Kappa could greatly reduce its interest bill, release security across its entire capital structure and increase its financial flexibility.

The bank that nominated Smurfit Kappa for this award said: "Successful market execution was underpinned by a tremendous amount of work by the treasury team to prepare both the company and its banking relationships for the refinance."

Loans below £750m
category winner
WORKSPACE GROUP

FINANCIAL FREEDOM

WORKSPACE GROUP TOOK A 'BIG BANG' APPROACH WHEN IT TRANSITIONED TO UNSECURED FUNDING WITH A £353M REFINANCING DEAL

Workspace CFO Graham Clemett: "We were very clear that we wanted to move all our debt to an unsecured basis, which is unusual for a property company"

Real estate investment trust Workspace Group made the significant transition from secured to senior unsecured funding in June 2013 when it sealed a £353m refinancing deal. The package comprised a £50m five-year term loan from a bank, a £45m 10-year term loan from asset manager M&G, a £100m revolving credit facility and £158m in seven- and 10-year private placement notes. Workspace's refinancing followed a £57m retail bond issue that took place in October 2012.

"We were very clear that we wanted to move all our debt to an unsecured basis, which is unusual for a property company," says Workspace CFO Graham Clemett. "Most property companies borrow on a secured basis. The problem with that is it does restrict you in terms of moving fast to sell or refurbish properties because you generally have to get consent from lenders."

When switching to an unsecured funding structure, Workspace decided to go for a 'big bang' approach. "If you do it gradually, you have to pay a premium to the lenders that aren't secured," says Clemett. "It's much more efficient to do it all in one go."

> "We were very keen to close this quickly to capture liquidity and a very attractive interest gilt rate market"

Workspace was founded in 1987 as a vehicle to dispose of property assets that had belonged to the former Greater London Council. It listed on the London Stock Exchange in 1993 and is a constituent of the FTSE 250 Index. Now it lets out office, industrial and workshop space to SMEs.

Clemett puts the success of the refinancing down to "selling the story of what the company is". He explains: "We're not a traditional property company. We provide space to smaller, mainly digital businesses – about 4,000 SMEs across London. It was great that people bought into that."

Clemett believes that 2013 was a ripe time to refinance due to the depth of liquidity in the market and low interest rates. "My concern is always that liquidity is going to dry out. So we were very keen to close this quickly to capture liquidity and a very attractive interest gilt rate market."

The combination of bank debt and capital markets funding that Workspace secured through the refinancing has resulted in the company's debt maturity being extended from 2.4 years to 7.5 years. Another benefit has been diversification away from bank debt, with banks now providing around 30% of Workspace's debt, compared with 100% previously.

"Due to the retail bond, we have a much higher level of brand awareness among UK retail investors, which has real benefits on the equity side," says Clemett. "And by raising the private placement, there is much better awareness in the US of our story now."

The professional services firm that nominated Workspace for the award said: "Such a combination of bank and capital markets providers for a core UK mid-cap company is without precedence and clearly demonstrates how UK debt financing markets have evolved in recent times."

Deal highlights

Issuer:
Workspace Group

Amount:
£353m

Structure:
£50m five-year term loan
£45m 10-year term loan
£100m revolving credit facility
£158m in seven- and 10-year private placement notes

Rating (at time of deal):
Not rated

What the judges said

"I liked the unique structure of the refinancing, including the UK private placement."

HIGHLY COMMENDED
Derwent

Real estate investment trust and student accommodation provider Derwent secured the runner-up spot in this category with its five-year £550m multi-currency revolving credit facility. It also issued a £150m six-year convertible bond and undertook a £100m US private placement (USPP).

This refinancing package transformed Derwent's capital structure so that it was no longer predominantly focused on secured bilateral bank facilities and had more diversified funding in place.

Notably, Derwent's convertible bond attracted the lowest coupon on a sterling-denominated bond since 2000 – a rate of 1.125%. Meanwhile, its inaugural USPP issuance was oversubscribed and priced inside the company's bank facility on a Libor basis. These activities also had the effect of significantly diversifying Derwent's debt maturity profile.

UK treasury team of the year (market cap above £2bn) category winner

THAMES WATER

LIQUID ASSETS

UK UTILITY GIANT THAMES WATER HAS A SMALL TREASURY TEAM WITH BIG RESPONSIBILITIES

The treasury team of UK utility company Thames Water is renowned for operating discreetly and efficiently in a sector where the glare of publicity is ever present. "We provide essential daily services, clean water and waste-water services, but it is surprising how much work we need to do to explain the services that are at the heart of daily life," says Austin Matthews, assistant treasurer – operations at Thames Water.

He adds: "Efficient financing is key in allowing us to deliver our service to our customers, so we do a lot of work with the media office on messaging around our activities and our financing arrangements. The sector has been subject to negative press in terms of financing arrangements and low levels of corporation tax paid. We have a robust story to tell, but it is amazing how some stakeholders want to paint a negative picture where none exists."

Prioritisation is key for Thames Water's treasury team, pictured from left to right: (back row) Andrew Beaumont, Antonia Butler; (middle row) Matthew Johnson, Austin Matthews, Rhianna Rawlins; (front row) Mandy Hay, Victoria Coombe, Matt Bell

Managing complexity is second nature to the team of eight, which is headed by group treasurer Andrew Beaumont. It is used to juggling a wide range of tasks, including funding (it has a large debt book of approximately £7bn along with an annual refinancing requirement of around £1bn for the 2010-15 period); running a £2.5bn derivatives book, handling relationships with the group's three credit rating agencies and 13 relationship banks; managing gross cash of £750m; and monitoring the credit risk of contractors working on large projects. In addition, the team is in the middle of replacing its treasury management system and supporting the company's transition from UK GAAP to International Financial Reporting Standards.

Treasury is responsible for securing the funding for Thames Water's £5bn Capital Delivery Programme, which entails upgrading water pipes, treatment facilities and sewers across London between 2015 and 2020. As well as being nationally significant, it is also Europe's largest capex project. The team is also taking a lead role in developing the delivery model for the £4bn Thames Tideway Tunnel infrastructure project, working with the government and the water industry's economic regulator, Ofwat.

Regulation is a constant focus for Thames Water's treasury. Much of the team's time is taken up with preparing data and presentations relating to Thames Water's business plan for the 2015-20 period, which must be approved by Ofwat. "The data requirements are vast, particularly in modelling the impact to our financial ratios and covenants, and ensuring that our credit investors and the rating agencies understand the latest developments," comments Matthews.

Prioritisation is key to the team's success, he adds, "because there is more work than there are hours in the day". Trust is also vital, since lots of discrete tasks are being undertaken at once. Thames Water encourages its treasury team to study for the ACT's qualifications and Matthews, Beaumont and assistant treasurer – corporate finance Antonia Butler are all MCT-qualified. In addition, the group emphasises the importance of visibility and "making sure people understand the bigger picture". So the treasury team is invited to investor updates and visits to sites such as sewage treatment works. "It's about encouraging people to get out of their comfort zone," Matthews explains.

The bank that nominated Thames Water for this award commended the treasury team for its "strong track record" since 2007 on a tight operational budget.

What the judges said

"Thames Water's treasury team attracted a lot of nominations. This is an award for consistent excellence."

HIGHLY COMMENDED
Rolls-Royce

Rolls-Royce's treasury team had a good year in 2013, successfully balancing management of the engineering group's capital structure with meeting its liquidity and funding needs.

The team was involved in Rolls-Royce's various M&A activities and issued its first dual-currency public bond since 2000. (For more information, see page 22.) It also handled the group's large FX hedge book of more than $26bn amid volatile market conditions and took a lead role in managing the request for proposal and review of its global card programme. In October 2013, treasury was responsible for raising $700m in an inaugural offering in the US private placement market for Rolls-Royce & Partners Finance, the company's civil aircraft engine leasing joint venture.

ROOM TO MANOEUVRE

STUDENT ACCOMMODATION PROVIDER UNITE REFINANCED AROUND 66% OF ITS DEBT AND INCREASED ITS UNSECURED BORROWINGS THROUGH A CLEVER STRING OF REFINANCINGS

Unite CFO Joe Lister: "We raised £400m off the back of three days of marketing and one morning of book building"

Unite treasury manager Alan Carr: "There is a lot of juggling of resources"

The treasury team at UK student accommodation provider Unite was the standout winner in this category for what the nominating bank described as a series of "sustained achievements over 18 months". These achievements included refinancing around 66% of the group's debt (using diversified sources of funding on both a secured and an unsecured basis); extending the maturity profile of its finance facilities while locking into low interest rates; and increasing the operational flexibility permitted within the various debt facilities.

Besides putting in place new facilities with three banks, Unite also took a bold and innovative approach in the variety of financing products that it used. In May 2012, it obtained a £121m 10-year loan from Legal & General that was secured on a portfolio of 10 assets. This loan was notable for being the insurer's first loan following the launch of its real estate lending business, and the nominating bank praised Unite's treasury team for its proactivity in anticipating the growing market trend towards non-bank finance. "Legal & General was very comfortable with lending into residential real estate and it liked the fact that we were the market leader in our sector," explains Joe Lister, Unite's CFO. "We met a number of different people in Legal & General, both on the lending side and the credit side." (In 2013, Unite raised a further £149m from Legal & General through Unite Capital Cities, its joint venture with GIC Real Estate.)

Unite followed up this success with a £90m, 7.5-year retail bond, which was launched on the London Stock Exchange's electronic Order Book for Retail Bonds in December 2012, and a £405m refinancing for the Unite UK Student Accommodation Fund. The fund is an open-ended non-listed real estate fund that holds a portfolio of 63 high-quality student accommodation properties across the UK. The refinancing of the fund, which took place in June 2013, was underpinned by a secured structure where both a commercial mortgage-backed security (CMBS) and a revolving credit facility ranked *pari passu*. Alan Carr, Unite's treasury manager, says that dealing with the rating agencies was one of the principal challenges with the CMBS. "It was one of the first CMBSs to be done in the past five years," he explains. "The rating agencies had significantly developed their requirements, as had the banks and the lawyers. By the nature of it being a bond, there was much more documentation and there was a great deal of time pressure. That was a hectic period."

Lister was impressed by the swiftness of the execution once the deal was ready to be done. "We raised £400m off the back of three days of marketing and one morning of book building. It really showed the power of the capital markets."

The treasury and finance team at Unite who worked on the refinancing, pictured from left to right: Matthew Loynes (commercial finance manager), Jennifer Gray (development finance manager), Liz Page (treasury analyst), Alan Carr (treasury manager) and David Faulkner (fund director)

In June 2013, Unite undertook a £50m equity placing with existing shareholders. Then, to add another string to its bow, it went on to issue a £90m five-year convertible bond in October 2013, with a coupon of 2.5% and a 35% conversion premium. "The convertible bond market is a different type of investor, a different pool of investors and an attractive cost of finance where we thought we could go out to five years," says Lister. "We did it as a way to increase our level of unsecured borrowing as well. Now, about a third of our debt is unsecured compared with nothing 18 months ago and the convertible bond is an important part of that."

Following the refinancings, around 68% of Unite's total debt is non-bank financed and the average life of debt has increased from three years to six years. While locking in longer term has reduced Unite's operational flexibility in some respects by limiting its ability to sell assets, its treasury team has put in specific provisions that give the organisation room to manoeuvre. Having unsecured borrowing also brings benefits. "We have a pool of assets that is unsecured and gives us flexibility if we need to manage disposals," notes Lister.

Good planning is critical to the company succeeding, says Carr. "There is a lot of juggling of resources," he explains. "We'd streamlined the monthly routine work to make it as automated as possible before this period of refinancing came up, so that helped. Knowing where to go to source information internally and externally is important, as is selecting a good set of advisers and lawyers. A lot of factors come into play."

What the judges said

"Unite's treasury team did a lot in a short space of time."

European treasury team of the year category winner

UNILEVER

FAST MOVERS

UNILEVER'S TREASURY TEAM IS BOLD AND AMBITIOUS, AND IT DOESN'T DRAG ITS FEET

Michel Pinto: The secret to success is having "a strategy that you apply whether you're in crisis or not"

Peter Zegger: "The board regards us as very skilled professionals and, at the same time, very good businesspeople"

What the judges said

"The breadth of activity undertaken by Unilever's treasury was impressive given the timeline involved."

You would expect one of the biggest names in the world of fast-moving consumer goods to have one of the best teams in treasury. And Anglo-Dutch giant Unilever, the owner of well-known brands such as Domestos bleach and Ben & Jerry's ice cream, does not disappoint.

Over the past 36 months, its treasury has achieved what the nominating professional services firm described as an "extraordinary transformation". In 2011, it moved its four front-office treasury teams – which were based in Brazil, India, the Netherlands and the US – to Switzerland. Here, it has established one centralised treasury centre of excellence that has streamlined processes and controls, and is responsible for managing group-wide risks and supporting all operating units.

Michel Pinto, Unilever's VP treasury international funding and banking relations, explains the rationale for the move as follows: "We had small treasury teams, but not a critical mass in every location. Also, we thought it would be better to have everybody in one place so we could react speedily to the market." He says the benefit of having everyone within 10m of each other makes things "very efficient in terms of communication". Incidentally, English is the agreed common language of the team and anyone who accidentally slips into their native tongue at work must pay a tongue-in-cheek 'penalty' of CHF2 into a pot, which goes towards team drinks each month.

Over the past decade, Unilever has followed a policy of centralisation and rationalisation, which has involved the group significantly cutting the size of its supply chain. Unilever's treasury team has contributed to this effort by achieving a 20% reduction in the number of banks it works with globally since 2011. It has identified banks in each location that can provide best-in-class service, closed bank accounts and set up effective pooling structures.

Unlike most international treasuries, Unilever's treasury team manages interest rate risk on an after-tax basis using advanced modelling techniques. "We can't manage treasury in isolation because doing so would increase the risk for the group as a whole," says Peter Zegger, Unilever's VP treasury and insurance. "In all the decisions we make, we try to take into account all impacts, including FX movements, interest rates, liquidity, pension and tax. We stabilise Unilever's bottom-line earnings per share." The team has also set up a risk board to regularly review all the treasury risks that Unilever faces, including country, currency, FX, interest rate and liquidity risk.

Unilever's front-office treasury team is 25-strong (including two professionals who are based in Singapore) and comprises both treasury experts and generalists from the finance function who join treasury for two- or three-year stints on a rotational basis. "The flow of high-potential generalists helps us a lot," says Zegger. "They bring intimate business knowledge, which strengthens treasury's understanding of the business, and they go back into the business with a lot of treasury know-how." Unilever's top finance executive team – which comprises seven people, including the CFO – boasts three ex-treasurers as well as current group treasurer Steve Weiner.

Reflecting on the team's achievements in 2013, Pinto says the year was busy due to Unilever's M&A activity. In particular, it paid out €2.4bn to up its stake in Indian consumer goods company Hindustan Unilever. "The refinancing of this project was done by treasury," Pinto explains. The secret to success in treasury, he adds, is quick decision making, being close to the business and having "a strategy that you apply whether you're in crisis or not". Zegger says that what makes the team special is the "sheer amount of projects that we have to deal with".

Last year, Unilever's treasury gave a half-day presentation to the board of directors. "The board regards us as very skilled professionals and, at the same time, very good businesspeople," Zegger explains. "We're good experts, but we're also doing what's relevant for the business."

Summing up the achievements of Unilever's treasury team, the nominating professional services firm put it as follows: "Overall, Unilever's treasury has achieved and delivered incredible value to the business. It has developed a future-proof function capable of embracing change. It has helped to enhance the credibility of treasury professionals at board level and demonstrated integrity, courage, respect, teamwork and innovation."