Engineering success

PHOTOGRAPHER: ROGER HARRIS

AN ENGINEERING AND CONSTRUCTION CONTRACTOR TO THE OFFSHORE OIL AND GAS INDUSTRY ALMOST PAID THE ULTIMATE PRICE FOR AN AMBITIOUS EXPANSION PROGRAMME. GROUP TREASURER BENTE SALT TELLS **GRAHAM BUCK** HOW ACERGY MANAGED TO RESTORE ITS FORTUNES.

The credit crunch is inflicting a stream of corporate casualties, but a number of high-profile names came close to crashing and burning even when economic conditions were relatively benign. Marconi and tour operator MyTravel are a couple of the names that come to mind.

Those who attended her presentation at this year's ACT Annual Conference heard Acergy group treasurer Bente Salt, recount how the company, an offshore oilfield services contractor, narrowly avoided the same fate after a period of rapid expansion. The business has since been nursed back to robust financial health after successfully completing a corporate workout under distressed financial conditions six years ago.

Acergy's origins go back to the early 1970s when, as Stolt Nielsen Seaway, it was a Norwegian subsidiary with a US majority owner, providing divers and remotely operated vehicles to support the exploration then opening up in the oil and gas fields of the North Sea.

A decade of expansion began at the end of the 1980s, when the company bought an Aberdeen operating base; in 1992 it added French diving and construction company Comex Services. Five years on, the company delivered its first major ultra-deepwater project off the coast of West Africa, and the remainder of the 1990s and early years of the 21st century were marked by a quick succession of major acquisitions.

They were to have a profound impact on the business, as Salt explains. Although management achieved its objectives in terms of growth the acquisitions were largely funded by debt, with the company using several banks in France following its major French acquisition, plus others used by its US parent Stolt-Nielsen. This debt carried covenants "which were to create a series of problems for us over successive quarters".

Mid-2001 signalled the start of a two-year period in which the company's share price fell sharply following the acquisitions and poor financial returns from "a number of major projects in Africa tendered on a fixed price basis but with inadequate risk assessment being performed".

The company, renamed Stolt Offshore, kept the banks regularly updated on its problems, and in 2002 cleared its balance sheet of all "toxic items". As Salt observes: "When a company is struggling, it is often the best time to clear the decks."

These results ultimately led, in 2003, to a change of management and the new regime quickly set about the task of turning the group around. The incoming chief executive officer, who joined from Technip-Coflexip Group, brought more than 28 years' valuable experience in the offshore industry. He recognised the underlying potential of the business and, together with a new management team, set about instigating change. Their task was helped by oil and gas prices beginning to edge higher that same year, starting a five-year run that saw oil nearing $150 a barrel by summer 2008.

"The incoming team closed out many of our loss-making contracts and disposed of non-core activities, which effectively drew a line in the sand and generated much needed cash," recalls Salt. "It was a challenging time and also a stressful one, but the new management team was quite exceptional in working hard to turn the business around."

To generate as much cash as possible, the group closed out its entire hedging programme, taking the risk on foreign exchange (FX) volatility as the price for generating cash. In addition, prior to presenting the turnaround plan to the banks, the CFO drew down all committed lines to ensure that management maintained a degree of control. This presented the company with the need to find safe places for its cash. "Fortunately, we were able to find a number of banks ready and willing to take the cash on," says Salt.

As part of the financial restructuring plan, Stolt-Nielsen was diluted below 50% ownership and in 2005 decided to sell out completely, thus severing all ties with its former subsidiary. This meant that all of the group's banking relationships transferred across the Atlantic and have been entirely Europe-based for the past four years.

The problems created by the ambitious growth strategy of previous years meant considerable work on cashflow forecasts. These were produced on a daily basis, without the support of a treasury management system, which was installed once the company's fortunes began to revive. Payments were prioritised, with staff salaries placed top of the list. "Without its people, the group would not have survived," Salt says.

She adds: "We also had the benefit of the company appointing restructuring agents, who came in to assist with deciding which issues were most vital. One of the most important was our guarantee capacity, as projects needed to carry attaching performance guarantees from the banks. However, that's difficult to achieve when you have no bank lines and can't give clients the guarantees they require".

Instead, the group used contract retentions, offered in lieu of a guarantee. Typically, the client was billed for 100% of the cost of a project, but the amount paid on invoices was 90% with the remaining 10% paid only on completion of the contract.

"The appointment of restructuring agents can often be seen as a

criticism of how the board has worked in the past, but it needs to be regarded more positively," say Salt. "The banks believed the business had a future, and they have appointed intelligent people who were there to help. The banks had security in the form of our fleet of ships and could have covered their debts by invoking their security rights, but they realised the potential of the business and supported us in winning new work."

The workout came to an end when the group successfully refinanced its syndicated facility in November 2004. "This new facility still had very restrictive covenants and was fully secured on our vessels," says Salt, "However, with all the cash generated from closed out operations as well as new projects, all debt outstanding under the facility was repaid in full and the facility was amended again in 2006 to release the security and to improve our covenants."

In September 2006, the group was able to announce the launch of up to $500m in convertible notes to support renewed growth initiatives – and to put some healthy debt back on the balance sheet. At the same time plans were unveiled to reward shareholders through a share buyback programme and the group's inaugural dividend, with a growing dividend for a third successive year recently announced.

At the lowest point in the company's fortunes, its share price struggled to remain above $1 and there were worries about retaining its Nasdaq listing. But post-workout it has risen strongly, although the stock market's post-credit crunch retreat has seen it lose some ground since its September 2007 peak.

The work of the company's treasury team was helped by the installation of a treasury management system in 2005."We made great efforts to have automatic accounts reporting, but some inefficiency remains in the way we do our reporting," admits Salt.

"Finding a safe place for our money has also been a challenge leading up to and in the wake of Lehman Brothers' demise. It needed a broad approach to ensure that we were able to keep cash moving around."

At one point, the company had more cash than available counterparties with which to place it, although it has since increased the number. This, in turn, has created more reporting work and the team of four is kept increasingly busy. An industry-wide emphasis on cutting costs offers no early prospect of additional resources, and the focus has turned to driving through further efficiencies.

"Our clients could easily recoup capex on development when the oil price was high, but now it has fallen back they are challenging contractors and suppliers to examine and reduce their costs," says Salt. "Then again, when times are good it's easy to overlook inefficiencies, so tightening up once in a while is no bad thing."

The company's treasury team has an excellent relationship with the eight core banks that now comprise its syndicated facility, while others provide it with FX or guarantee lines.

Its focus on joint ventures has led it into new banking relationships, including some in Malaysia, where the company has been able to leverage well-repaired bank relationships and introduce lead banks to new markets.

"The pricing was very low and there was no market flex on the facility, so the bank has found it difficult to syndicate that much of it," says Salt. "But as long as the debt is being serviced the bank should have no worries in that respect. The key thing is to keep the banks well informed."

Treasury continues to monitor counterparty risk closely, although restrictions put in place after Lehman's collapse have been relaxed recently. The team uses counterparty ratings to assess the risk "but we supplement these with additional information to decide what is best for the group". Investment committee meetings are held regularly, and reports are made to the chief executive and chief financial officer on the group's cash position.

The company which held no available credit or FX lines four years ago when it broke from Stolt-Nielsen, today carries out heavy volumes of FX. It has also developed multi-currency flows and a trading platform that enables each of its regions to hedge their own flows under the watchful eye of the London team.

"It's a very impressive piece of the trading platform and the product goes under the name of 360T," says Salt. "We were among the first to join as it focuses on corporates, whereas other platforms are typically proprietary banking systems. We regard it as giving us a good deal: it gives complete visibility and encourages competitive bids."

Next on the agenda is a review of financial messaging network Swift, as the company needs to review the cost of making payments. "At present, much time is taken up with putting payments into internet banking systems. We need to have approvals in our ERP [enterprise resource planning system] and directly linked to the banks."

The project kicks off later this year and Salt is already devoting time to attending seminars and hearing speakers on the topic. "I like carrying out a lot of upfront research," she says.

Bente Salt, MCT

Bente Salt moved from Denmark to the UK just over 20 years ago to study for a business studies degree at what was then the Polytechnic of North London.

Graduating in the early 1990s, she joined thousands of fellow students in a fiercely competitive employment market during the last recession in the late 1980s.

Following some challenging years, a role with Hillsdown Holdings allowed her to complete her ACCA qualification, "But I knew at that stage that I wanted to work in treasury," she adds.

Another early job involved the very different role of financial and management accounting and treasury for a London social housing association. "It had some very good processes in place that ensured strong compliance with regulation and in its reporting to the board," adds Salt. "I was also fortunate enough to have an excellent boss."

Her next move was to Coral Racing in 2000, again for a role that mixed financial accounting and treasury work. At that time the company had plans, ultimately unrealised, for an initial public offering, which meant regular audits were part of the workload. A year later, she moved to Stolt Offshore, as the company was then known, where she has been for more than eight years.

"I started out as group treasury manager, but the job has changed immeasurably since 2001 – as has the group itself," says Salt. Then, as it was still the subsidiary of a group with its corporate office in North America, the job involved regular reporting back to the US, "which had a major say in what we did and the way the company was run".

The upside of the new job was that, for the first time, it offered her a pure treasury role. "It was a relief to get away from the routine of accountancy, where the job could be pretty much unchanged from one month to the next. Treasury is more forward looking by comparison."

Graham Buck is a reporter on The Treasurer
editor@treasurers.org