

# THE BEST OF BOTH WORLDS



ALTHOUGH IT IS A HEAVY WORKLOAD, **ASTON SWIFT** OF INTERTEK SAYS TAKING ON THE EXTRA ROLE OF INVESTOR RELATIONS MANAGER COMPLEMENTS TREASURY PERFECTLY.

**T**he requirement for an investor relations manager arose after we listed on the London Stock Exchange in May last year. It was decided to use current in-house resources to fulfil this responsibility and, as Corporate Treasurer, I was chosen to carry out this role alongside treasury as there was a good fit between the roles.

**INTERTEK.** In 1996, Charterhouse Development Capital Ltd led the £380m management buyout of Intertek from Inchcape plc by investing £80m in preference shares and helping the company to raise £125m in senior debt, £125m of high yield bonds and £50m in pay-in-kind (PIK) debentures. The business grew from 1996 to 2001 at a compound annual growth rate of 10% in sales and 16% in operating profits and was able to float in 2002. The initial public offering (IPO) placed us in the FTSE 250 with a market capitalisation of £614m and provided the exit for Charterhouse. We raised £245m of new equity and £250m of new senior debt, with which to repay the expensive old debt and preference shares and finance the IPO. We had achieved the objective of taking the firm from private to public in six years, while still investing in the business and servicing the high debt levels.

Intertek is arranged into four divisions, in 99 countries and employs more than 11,000 people, with headquarters in London. In 2002, sales were £461m and operating profits £77m. We test, certify and inspect a wide range of products and commodities in markets all around the world, for safety, regulatory, quality and performance standards. We are present in many diverse locations, which can make the treasury role both frustrating and interesting at times.

**TREASURY AT INTERTEK.** The treasury function is a standard one and I retain responsibility for the group's overall cash position, financing, foreign exchange (FX) exposure, interest rate management and bonds and guarantees. Before the IPO, streaming cash to the UK to service the debt was my single most important objective. We managed to do this despite being in countries such as Argentina, Chile, Nigeria, Turkey, Bangladesh and China, to name but a few. Remittances from these countries require careful tax planning, as do many other aspects of treasury, so the Group Tax

Manager reports to me. To strengthen this relationship further, we recruited an assistant tax manager, who also carries out treasury responsibilities.

Prior to flotation, 20 banks made up the syndicated debt facility, which was governed by several financial covenants. As we were highly leveraged, a key area of responsibility was to make sure the banks understood our business, the risks and opportunities, with the emphasis on cashflow. Since the IPO, the number of banks in the syndicate have reduced and the facility agreement has fewer financial covenants, but the communication with them remains just as important as the amount borrowed from them has doubled and the margins have reduced.

**INVESTOR RELATIONS.** The majority of our shares are held by institutional funds. The investor relations (IR) function is therefore geared around these key institutions and other potential large holders. The primary objective of IR is to keep the investor community well informed about our activities and the markets in which we operate, within the bounds of the law and regulations. The timely disclosure of information and the equal treatment of investors are critical objectives in maintaining an orderly market.

The CEO and CFO are the focus of investor attention. My task is to ensure this communication takes place efficiently and in a manner that benefits both investors and the company. The various parties I have to deal with are:

- investors, through direct discussions with fund managers or their buy-side analysts;
- the press, either directly or indirectly through our PR agents; and
- the wider equity market through equity salesmen and sell-side analysts through our house brokers; and
- it is a wide audience with complex needs and methods of address.

We have seven sell-side analysts who closely follow us and write reports giving recommendations whether to buy, hold or sell the shares. Much of my time is spent in meetings with them reviewing their reports and putting them right where there are fundamental misunderstandings. This can be a delicate task, as we cannot give the

**FIGURE 1**  
CURRENT ANALYSTS FORECASTS.

Analyst	Date	Turnover	EBITA	Recommendation
Goldman Sachs	07/05/03	£471m	£80m	Buy
Cazenove	01/05/03	£465m	£78m	Buy
Citigroup	11/03/03	£462m	£79m	Buy
UBS Warburg	11/03/03	£474m	£80m	Hold
CSFB	12/03/03	£474m	£82m	Hold
DKW	15/11/02	£489m	£80m	Hold
Morgan Stanley	19/09/02	£463m	£79m	Hold
Consensus		£471m	£80m	

analysts any more information than is available in the public domain. From these analyst reports, I compile the consensus figures, which, together with the highs and lows, form the basis of 'market expectations'.

**MANAGING EXPECTATIONS.** To be successful in IR you must manage expectations – 'no surprises' is the oft repeated rule, especially negative ones. We try to avoid getting into this situation by presenting a balanced, prudent view of the year's prospects and making sure our investors and analysts fully understand each business segment and the key drivers behind the markets in which we operate. We explain the risks so that, if a risk does materialise, investors would have been aware of it and would have already factored it into their investment decision. For example, about 80% of our revenues and profits are generated in US dollars, or dollar-linked currencies, and reported in foreign subsidiaries. This results in a material translation risk that we do not hedge and is something that has been well communicated. If the recent weakening of the US dollar to sterling continues it will result in lower turnover and profits in 2003 at actual rates compared to constant rates. It helps that I am a corporate treasurer in understanding and explaining this translation risk.

**THE INVESTOR RELATIONS CYCLE.** There are three regular annual events for us: Prelims, Interims and the AGM. The Prelims is the announcement of the full-year results and is followed by a presentation for the analysts before the start of a gruelling two-week roadshow. The roadshow consists of about five one-to-one meetings a day, lasting an hour each, as well as group lunches and more presentations. I accompany the CEO and CFO on these visits, where my main responsibility is the logistics. By meeting the investors personally, I give them a point of contact for future queries.

Following the Prelims we have the AGM, organised by the Company Secretary, at which any shareholder can ask questions of the Board of Directors. The Interims are announced straight after the summer break and follows the same format as the Prelims, and is just as exhausting. Thankfully, we do not have to report quarterly.

**THE PRE-CLOSE STATEMENT AND OTHER ANNOUNCEMENTS.** Two months before the Prelims and Interims, we issue a pre-close trading statement, which is an indication of current trading. This allows us to give the market an indication of performance and update the analysts

before the close period commences, after which we are restricted on what we can say externally about trading. The analysts usually update their reports after the pre-close with their latest forecasts. All announcements, including the Prelims, Interims, pre-close statements, have to be made to the Stock Exchange before discussing externally. Announcements are also made if there are any material acquisitions or disposals, or if other price-sensitive matters should arise.

After an announcement, I update the IR section of the website, and email the announcement to the IR subscribers. That way, I am reaching the maximum number of investors with the news and, importantly, the smaller private investor can gain access to the information at the same time as the fund managers.

**THE INVESTOR SEMINAR.** We are currently arranging an investor seminar, where we have invited a cross-section of the investor community to meet the operational management and hear their presentations on the long-term opportunities within the business. This is the only time the investors and analysts have direct access to the operational management, so we expect the event to be popular. I am responsible for the invitations and the arrangements and for ensuring it is pitched at the right level for the audience.

**CONFERENCES AND SMALLER INVESTORS.** The analysts invite us to present at conferences, which provides us with an opportunity to widen our investor audience and give current investors a little more colour on the group. It also gives smaller investors the chance to have direct access to the company. I usually deal with other smaller investors or overseas investors who ask to come and see us.

**WATCHING THE SHARE PRICE.** This can be a painful exercise. When the share price behaves irrationally, it is my job to try to find out why. The brokers, as our eyes and ears in the market, are the first port of call. We only try to understand the movements and would not normally take any action, unless there was a false rumour or a leak of price-sensitive information – in which case a statement might have to be made. Most fund managers run balanced portfolios and so are more interested in performance relative to the rest of the market rather than absolute performance.

**THE REGISTER.** Shares are usually held in the name of nominees and so it is impossible to know who the real beneficiaries are behind them without further analysis. We contract out this analysis to Computershare, who provides us with a monthly report on the breakdown of the register.

**TREASURY AND INVESTOR RELATIONS.** There is undoubtedly a good overlap between both roles. Explaining the business and the numbers to the investor community is similar to explaining it to the banks in our debt syndicate, and the analysts' reports, with their sophisticated models and projections, are no trouble for a qualified corporate treasurer. In addition, having the exposure to both the debt and equity funding of the group, I can take a more balanced view when considering changes to the capital structure.

I have no regrets in taking on the extra responsibility of investor relations manager and the feedback from investors and analysts has been very positive in this regard.

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