Star quality

CHARLES VAN DER WELLE, THE DIRECTOR OF ITV'S TREASURY, WHO LAST MONTH CARRIED OFF THE ACT'S TEAM OF THE YEAR AWARD, TELLS **GRAHAM BUCK** THAT COMPANIES SHOULDN'T RELY TOO MUCH ON BANK FACILITIES.

The success of The X Factor in attracting audiences and advertising has helped revive broadcaster ITV's fortunes in recent months. That programme's search for a star has also provided the business press with a handy analogy in recent times as the group sought a new chairman and chief executive who would find favour with the City and investors.

Last November former Conservative MP Archie Norman, who transformed the fortunes of Asda in the 1990s, was named as ITV's new chairman. In January this year he was joined by Adam Crozier, who moves from Royal Mail to become group's chief executive.

The interview with ITV's director of treasury, Charles van der Welle, at the ITV offices at London's South Bank took place just before Crozier's appointment was confirmed but is likely to please him. He admits to admiring executives with an entrepreneurial spirit. It was one of the key factors that influenced van der Welle's decision to join Carlton Communications back in 1996, some years before the merger with Granada that led to the formation of ITV.

As van der Welle observes, the business was still highly profitable in the late 1990s: "Indeed, television was still widely regarded as a licence to print money." Those were the days.

ITV's current rating is only B+ and van der Welle says that moving back into investment grade could take another three or four years. Moreover, even though the financial markets were strong for the best part of 2009, "we can't assume this will continue to be the case and have to be very aware that conditions could again deteriorate. Interest rates are likely to stay low for some considerable period, and while banks have adopted a variety of views on the outlook, it's unlikely that we'll see much growth in 2010 or 2011."

Despite this bleak outlook, there is a widespread feeling that ITV has come through the worst and survived. When the group issued a seven-year convertible bond that raised £135m last October, the share price had already recovered from a low of 17p earlier in the year to 50p and the offering was 10 times oversubscribed.

"The high demand enabled us to increase the size as the share price rose on the back of a positive trading update," says van der Welle. "We were able to price a conversion premium through the range that we'd given to the market. In many ways, the offering represented the last part of the jigsaw in raising our medium-term financing and liquidity."

And his advice to other treasurers? "What we've witnessed in the past two years has brought home how you shouldn't be reliant on one single source of financing – that is, the banks. You should diversify into the capital markets and it pays to have a basket of alternative funding sources."

Van der Welle's career began with a five-year stint at Price Waterhouse in the early 1980s, where he qualified as a chartered accountant. He moved to Lehman Brothers, spending two years in internal audit, before becoming financial controller of a business whose ultimate owner was AMRO Bank and which specialised in providing clearing services and financing for market makers on LIFFE. It was at this point that he developed an interest in treasury, through his work in lending to "locals" on the exchanges to support their positions.

"After a couple of years there, I definitely wanted to make a career for myself in treasury. But to get a foot in the door I really needed to sit the ACT exams, which at the time were still in their early days."

Obtaining the ACT qualification was crucial to his next position: on the treasury team at Hanson, then a major conglomerate. He describes his period with the group as "a fantastic experience".

Having joined as a treasury assistant, he was promoted to assistant treasurer after two years and worked on major financing transactions, including several large swap contracts and hedging Hanson's interest rate and currency exposures.

In 1996, a tough choice presented itself. "I was keen to progress further and actually become director of treasury, so I was delighted to be headhunted to join Carlton," he explains. The approach came just before Hanson announced plans to break itself up, "so when I handed in my notice I was surprised to be offered the position of group treasurer of Hanson's aggregates and brick businesses. It was the hardest decision I've ever had to take, but after careful consideration I opted to join Carlton."

His new job was director of treasury, with a primary responsibility for maintaining the group's financing and liquidity. "I've always been convinced that this role is paramount – a belief that has been reinforced by the current financial crisis."

His work involved raising both bond finance and bank finance, derivatives, hedging interest rates and currency exposures. His treasury responsibilities also covered Carlton's businesses in the US.

The final act in a series of deals among UK commercial broadcasters saw a friendly merger between Carlton and Granada in 2002, although securing the agreement of the competition authorities delayed the conclusion of the deal until February 2004.

To facilitate the merger in late 2003 Carlton and Granada put together a bank facility in the name of ITV to satisfy working capital requirements. Post-merger ITV's financial structure was tidied up.

Carlton bonds were novated to ITV and quoted shareholdings, such as its stake in French group Thomson, were sold. "We also retired certain legacy debt in the US and in the form of preference shares which we redeemed," adds van der Welle.

With a cleaner capital structure in place, ITV raised new bond finance in 2005 and 2006 when market conditions were still relatively favourable. Charles Allen's decision in August 2006 to step down as ITV's chief executive made the second round more of a challenge, and investors were given the reassurance of coupon protection in the event of the group's rating falling to sub-investment grade.

Conditions have grown steadily tougher since then and van der Welle says his main focus – which he regards as the most important job for the CFO also – has been in maintaining finance and liquidity. "My preference has always been for covenant-free bond financing and in arranging for the group's requirements to be met well ahead of when need actually arises, ideally by a whole two years," he says.

"I've always been wary of over-relying on bank finance due to the financial covenants. ITV has had bank facilities but has been careful not to draw on them. They've never been a core part of our financing and we viewed them as a bridge to the capital markets. We have some excellent bank relationships but I'm cautious about just how much sway relationship directors now have with credit committees."

This strategy was vindicated during 2008 and for much of 2009 when, as he admits "all arrows were pointing the wrong way for ITV". Both years, he adds, showed that banks' abilities to continue supporting businesses during hard times was vulnerable. Had ITV relied on the banks, it would have breached financial covenants and he is certain that their current lack of flexibility would have ruled out making the terms more accommodating.

As a sceptic, he is not convinced that with a revival in ITV's fortunes now under way the group will hurry to put any new syndicated bank facilities in place. "We are relying on cash raised from the bond market and alternative sources of finance."

ITV secured a total of £310m from three different non-traditional sources in 2008. A reverse enquiry from a specific investor led to the sale of a bond for £110m. A further £125m was raised through a funded swap linked to an interest rate algorithm, and the group gained £75m through an invoice discounting facility against advertising receivables. This was followed up in 2009 with a structured loan raising £50m, a bond tap raising £58m, an exchange offer resulting in pushing out €188m of bonds to 2014 and the £135m convertible bond.

It has also bought the group time to carry out a three-year restructuring, which is scheduled to produce annual savings of £285m by the time it completes in 2011.

In the meantime, the group's programme output has scored notable successes with The X Factor and Britain's Got Talent. The credit crunch has offered one benefit as viewers are staying home and watch more television, says van der Welle. "People appreciate the value of free-to-air entertainment, even if the regulatory environment means that ITV has found it tough to monetise that strength sufficiently.

"At least we've saved ourselves from the need to carry out a rights issue – a fate that many companies were unable to avoid in late 2008 and early 2009 as they ran up against their bank covenants."

The group has also avoided having to hold a fire sale to dispose of valuable assets. Last October's bond launch was accompanied by news that ITV had taken down the for sale sign on its SDN digital multiplex business.

The management of working capital has also been improved. "With the help of PwC we've reviewed and improved our working capital management and made permanent savings of £100m through better management of payables and receivables and the timing of our programming spend." He adds that the working capital project was a major team effort, to which many people contributed.

By contrast, the treasury team at London's South Bank consists of just two individuals – there were three before the latest cost-cutting programme and four at merger. ITV's shared service centre in Manchester handles reconciliations, settlements and accounting, but staff there do not report to treasury.

Austerity looks set to continue in the near term. "I agree with the projected scenario of slow recovery dogged by a high degree of uncertainty. A long and sustained period of modest economic growth is likely, but there is also a very real possibility of double-dip recession, which we use as part of our scenario planning, particularly as we don't have a syndicated bank facility we can fall back on.

"We've positioned ourselves at the highest degree of the floating rate permitted by our policy to take advantage of the carry of low interest rates. We're obviously in uncharted territory with the programme of quantitative easing. And from a business perspective you have to plan cautiously."

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