



LADBROKES' TREASURY TEAM OF VINOD PARMAR AND FIONA ROSE TIP **GRAHAM BUCK** OFF TO THE CHALLENGES OF A 24/7 BUSINESS WHERE PAYOUTS TO CUSTOMERS CAN SOMETIMES EXCEED STAKES.

A sure bet

As the countdown to the London Olympics enters its final phase, this summer might appear to be shaping up as a bumper one for earnings at gambling company Ladbrokes. But group treasurer Vinod Parmar dispels the notion. "Far more important for us are major football and horse racing events such as the European Championship, World Cup, Cheltenham Festival and the Grand National," he says. "The big gambling event for this summer will be the European Championship."

With more than 2,400 high-street betting shops in the UK and Ireland, plus outlets in Belgium and Spain, Ladbrokes is the world's largest retail bookmaker.

In recent years its focus has returned to these core activities. Parmar says that in more than two decades with the company he has witnessed many changes. "The company was originally a highly profitable and cash-generative betting shops business," he says. "Then in the 70s and 80s corporate policy generally was not to return money to shareholders but reinvest it. Conglomerates were very much in vogue."

So the company invested in a multitude of businesses, including hotels, property development and retail. Following the acquisition of Stakis Hotels in the late 90s it even changed its name to Hilton Group, as the name was more recognised by international bond debt investors. The name reverted to Ladbrokes after the sale of Hilton for \$5.7bn in 2005, when the corporate focus returned to a standalone betting and gaming company.

Parmar says that a modest bet is an indulgence that many people are reluctant to forgo, although he adds that people tend to reduce their number of bets in a recession. Average bet size has remained at just over £8 for a number of years.

The company launched a £275m rights issue in October 2009 to cut its debt load from £962m to £687m. It was feeling the recession at the time and a succession of adverse racing results and lack of draws in the Premiership had hit profits. "Results that season were good for the punter but bad for our bottom line," says Parmar. "Soon after, our results recovered. Indeed, possibly the cash raised wasn't actually needed although it was useful in reducing our debt in a tough credit environment."

UNKNOWN QUANTITY Parmar originally joined Ladbrokes as a management accounting trainee, and responded to an internal vacancy advertisement for a treasury accountant. "This was back in the late 80s when treasury was more of an unknown quantity," he

recalls. "I went to see the group's deputy treasurer, who had a screen behind him with flashing market prices. That sold it for me. The department's work interested me; many instruments we now take for granted were then still in their infancy. Treasury accounting had no established rules and these were gradually being set."

He entered treasury thinking that he could always return to accounting if things didn't work out, but he has enjoyed a variety of roles within treasury in the years since, passing his ACT in 1997, and his MCT a year later.

FX EXPOSURE He works alongside Fiona Rose, who joined the company as assistant treasurer in 2007. Her career path began at Electronic Data Systems (EDS) in the 90s, carrying out pan-European project costing before the euro arrived. EDS was then owned by General Motors (GM), which was also a major client. "I worked for the GM division, which had significant FX exposure," she recalls. "So I often dealt with the treasury department and was eventually invited to join."

After several years of back-office and cash management work, Rose broadened her experience with stints at a US-owned waste management company as assistant group treasurer on a small team and then a similar role at Elementis, a specialty chemicals group. She passed her ACT in 1999 and followed up with MCT six years later.

In 2002 she moved to the engineering and project management group AMEC, staying for five years before joining Ladbrokes.

Since the rights issue, Ladbrokes treasury team has completed two major deals. In February 2010 it sold a £225m high-yield bond and last December it completed new five-year debt facilities totalling £540m with its banks, replacing existing facilities totalling £560m more than a year ahead of maturity. "We spotted an opportunity in the market," confirms Parmar. "For quite some time only a three-year tenor had been available and we saw a chance to secure five years. We also took the opportunity to shuffle our relationship banks, with a few exiting and some new names replacing them."

He detects signs of improvement in market conditions in the first quarter of 2012. "They remain tough for some borrowers but very liquid for others and the capital markets are buzzing. Recently the market has been hot for investment-grade paper. There's considerable appetite from investors and a lot of cash out there looking for a home."

Parmar and Rose say the treasury team is currently focused on further improvements in its cash management, building on earlier work to introduce straight-through processing and move to a



paperless treasury department. "Ours is a 24/7 business, and large amounts of cash are flowing at any one time and we have to ensure that our systems can handle it," says Rose.

Unlike most businesses, Ladbrokes can pay out more cash to customers than it receives from them. "Some providers such as credit card companies place restrictions on our activities and we endeavour to improve their understanding," says Parmar. "We also have to deal with anti-money laundering measures. The Gambling Commission requires us to keep a keen watch on any suspicious activity."

Both believe Ladbrokes' retail operations will remain important but that growth has reached a plateau "particularly here in the UK where we have about 25% of the market". Future growth is likely to come from digital operations, but Europe will remain the probable focus in the near-term as online gambling is not permitted in markets such as the US.

"Entering unregulated markets is too risky as either gambling is illegal or a grey area," says Parmar. "Gambling is still highly restricted in China, where we are in a joint venture that provides a betting product in Hunan province. Hunan is bigger than the UK and has kiosks where bets can be placed on the outcome of a racing car game – the only form of online betting currently permitted."

Quick-fire quotes

WORDS YOU MOST OFTEN SAY TO YOUR CFO/COLLEAGUES?

Parmar: "Debt providers are at least as important stakeholders as equity holders."

Rose: "Please can you explain why..."

WORDS YOU MOST OFTEN SAY TO YOUR TEAM?

Parmar: "How much cash have we got in today?"

Rose: "What is our borrowing position today?"

DOES RECESSION OR GROWTH LIE AHEAD?

Both: Steady state/slow growth.

WHAT PIECE OF ADVICE WOULD YOU OFFER TREASURERS?

Parmar: Ensure you have liquidity for your medium-term needs.

Rose: Streamline and automate as much of the daily routine as possible so you can spend more time adding value.

DEBT OR EQUITY?

Parmar: Depends where you are on the WACC curve, but for us, at present, debt.

Rose: Debt in current markets.

FIXED OR FLOATING INTEREST RATE?

Parmar: Floating if adequate covenant and liquidity headroom.

Rose: A mix, depending on plans and covenant protection.

ACHIEVEMENT YOU ARE MOST PROUD OF?

Parmar: Overcoming complex hedging/financing issues to sell Hilton.

Rose: Getting a large bid bond issued in Thailand on a UK bank holiday by a non-UK bank with a relationship managed in the UK.

MOST VALUABLE PART OF THE ACT MEMBERSHIP?

Parmar: Keeping up to date with latest treasury thinking.

Rose: Theoretical knowledge that complements experience.

REASON FOR ATTENDING ACT CONFERENCE/EVENTS?

Parmar: Content, and meeting a lot of treasurers and bankers in a short space of time.

Rose: Learning about latest developments, and networking.

In-play betting (betting while an event is in progress) is a major growth area. Each event offers a multitude of bet in play opportunities. "We need to upscale our technology to accommodate these opportunities, so our computer systems are highly complex," says Parmar. "Betting operators are increasingly becoming technology companies and our IT is partly internally developed and partly bought-in. Our strategy is to study which options offer the fastest route into a new market."

Both Parmar and Rose regard current economic conditions as challenging, but also offering good opportunities for treasurers.

"I see treasury skills as transferable to a number of different industries and areas – for example, managing financial risk," says Rose. "There has been a degree of convergence between treasury and risk management, although the extent depends on the business. For example, a construction group will have a very different risk profile to that of Ladbrokes and the board's view of risk may be different. In some companies that produces a jockeying for position between risk management departments and treasury; in others the two can work together more closely."

Graham Buck is a reporter on The Treasurer.

editor@treasurers.org

