

REGUS, THE WORLD'S LARGEST SERVICED OFFICES PROVIDER, HAS YET TO FEEL THE IMPACT OF THE ECONOMIC DOWNTURN, BUT GROUP TREASURER STEPHEN DARNLEY TELLS **GRAHAM BUCK** THAT IT IS BOTH READY AND BETTER POSITIONED THAN LAST TIME AROUND.

A close-up portrait of Stephen Darnley, a middle-aged man with dark hair, smiling warmly. He is wearing a dark pinstriped suit jacket, a white dress shirt, and a yellow tie. The background is a plain, light-colored wall.

Ready
for anything

PHOTOGRAPHER: ROGER HARRIS

The tremors that have shaken the financial sector in recent months have proved challenging for organisations of all sizes. Even those sectors better protected from an economic downturn are not immune. Fortunately for Stephen Darnley, group treasurer at Regus, his career has included working for several companies during periods when they were undergoing change and facing substantial challenges.

After graduating from the University of Cardiff with a BSc in economics, specialising in banking and finance, he joined the NHS's finance trainee scheme in the mid-1980s. This was just as Margaret Thatcher's government was introducing internal market principles aimed at running the service through private sector-type management and outsourcing non-core activities. After training, Darnley joined the internal audit function where the work involved much focusing on efficiency assessments.

Having experienced life with an organisation in the throes of change, he moved to Brighton in 1989 to work in the internal control function at the head office of American Express. A two-year stint was followed by a move in the early 1990s to another outfit about to undergo a shake-up: British Rail, which was already preparing for the privatisation that would take place in 1996.

"I joined BR as group accountant for the Red Star parcels operating division, which was expected to be one of the first businesses to be privatised. My first introduction to the world of treasury followed in 1993, when I was invited to apply for a post in BR's director of funds department just as privatisation was really getting under way."

He stayed there for over three years, but post-privatisation many of BR's functions were hived off into the newly formed Railtrack, which had taken over the running of tracks, signals and stations.

"The residual business remaining with BR was going to be relatively small, and I preferred to move back into the private sector," he says.

Accordingly, the next move was to tour operator First Choice Holidays as treasury analyst in Crawley. Over the course of five "very interesting and enjoyable" years, during which First Choice fought off a hostile takeover bid from Airtours and considered a merger with Kuoni, Darnley rose to become assistant group treasurer. But it became clear he would need to move again for a more senior role.

So he did, to DIY chain Homebase, whose venture capital investors were planning to bring the group back to market through an initial public offering (IPO). However, the stock exchange was in its post-dotcom doldrums and the intended IPO was abandoned to be replaced by plans for a trade sale to GUS, owners of the Argos chain.

Darnley moved on, this time to US-based Bell Micro Products, then little known in Britain "despite its size and annual revenues in excess of \$4bn, which placed it only just outside Silicon Valley's top 20". Bell is a data storage wholesaler acting as intermediary between companies such as Hewlett-Packard and retailers, and during his three years with the group as its European treasurer the company used its UK base as a springboard for expanding into Europe.

THROES OF CHANGE In early 2005 Darnley moved to another group undergoing transformation. Fashion label Burberry had been acquired by GUS back in the 1950s, but enjoyed a renaissance in the 1990s from "a label that was regarded as slightly frumpy to a top-end designer and retailer" under chief executive Rose Marie Bravo, who he recalls as a strong personality with a talent for brand positioning.

"Just a few weeks after I joined, GUS announced its plan to float off the rest of the business via a pro rata distribution to GUS shareholders, so that Burberry became a fully independent plc."

Following on from this change was a project to implement SAP

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across the business, with treasury the first department to go live on the new system.

After two and a half years at Burberry, Darnley moved to Regus last September to take up the post of group treasurer, a month after the credit crunch had begun to bite. "It has been an interesting journey ever since and I can't believe how fast the year has passed," he admits.

The group has done well in recent years, offering meeting rooms and virtual offices in addition to conventional serviced offices. However, after its initial success it experienced some well-publicised problems in the wake of the dotcom boom and bust early this decade, when the US business had to apply for bankruptcy protection under Chapter 11 to give it the opportunity to reorganise. So "there has been a high degree of interest in seeing how we will cope with the current climate".

Darnley expects challenging times for everyone in the next year or two, but is confident the Regus business has been refined and improved since those early days and now has much greater resilience.

One major change is greater diversity and spread. "One of the lessons learned during the previous downturn was that the group was too reliant on both the US and on clients in the dotcom sector," he says. "Added to this, we had a fairly inflexible lease portfolio.

"By contrast, today we have achieved much greater regional diversity and a far better industry spread, with no one sector representing a major percentage of the overall business. We also have much greater flexibility in our lease portfolio."

WITHSTANDING A DOWNTURN The company's growth means it now operates in 70 countries around the world and has more than 950 centres. As a result, Regus is better positioned to withstand an economic downturn.

Although the business model has undergone various refinements, it follows the old adage of stick to what you're good at, Darnley adds. The company delivered a strong set of results for 2007 while figures for the first half of this year, issued at the end of August, showed a 23% rise in revenues to more than £500m while pre-tax profit jumped 39% to £74.5m. Darnley says that the figures for the full year will also be strong "although clearly we have to be cautious about prospects for 2009".

The group also used the issue of its first-half figures to confirm that its head office will transfer outside the UK. The move will be accomplished by creating a holding company, to be called Regus plc, which will be incorporated in Jersey and listed on the London Stock Exchange. Like other blue chips, the group is seeking to lower its corporate tax bill but while other ex-pats such as Shire have chosen Dublin as their new location, Regus has picked Luxembourg "because it meets all necessary commercial criteria". According to the group's chief executive, Mark Dixon, the plan to relocate has had a lengthy gestation period and tax is only one consideration. Regus also regards the move as a means of internationalising its business.

The group is divided into four operating regions: the UK, the US, EMEA and Asia Pacific. Each has its own finance team in addition to the small team based at the head office in Chertsey, Surrey. Darnley says the group has historically operated a decentralised treasury and cash management structure.

"One of my objectives is to strengthen this structure; not necessarily to centralise it, but to develop closer working relationships with the regional CFOs and their teams to help treasury support their business and deliver an improved contribution to the group as a whole."

Regus' treasury department "isn't big", consisting of "myself, a treasury accountant who provides back-office support, and treasury/cash managers in each of our regions, who all have a direct line to me".

Having joined just as the credit crunch intensified, the past year has inevitably seen the team focus on risk reduction, cash management, reporting and control. "Ours is essentially a fairly simple business and, from the treasurer's perspective, the task is to focus on the basics and make sure that we get them right."

He adds that he would have undertaken this work regardless of the general economic climate and the past year has merely underlined the relevance of these basics.

IMPROVING PROCESSES The team's challenge lies in managing the group's geographic spread and the cash generated in each territory as the business continues to grow and evolve.

"There is always scope for improving processes and efficiencies, so potential improvements are regularly under review such as shared service centre operations, better solutions for cash management and cash pooling, and the processing efficiencies and economies offered by initiatives such as Single Euro Payments Area [SEPA].

"SEPA is still very much in its infancy and our structure hasn't yet enabled us to take full advantage of the various opportunities that it opens up, but I am constantly looking at how we can enhance efficiency. In addition, technology is continuously evolving and I'm a great advocate for making full use of the benefits this can bring."

While the tough economic climate may affect growth prospects in the short term, Regus is still looking at opportunities for developing its global network, particularly in major cities and in regions where it still has relatively low representation.

Although the group is the world's biggest player in the serviced offices market, it still has "a relatively small share – less than 15%", says Darnley, so there is scope for acquisitions as well as organic growth.

"For comparison take the hotels sector, where an operator like Marriott has nearly 2,800 locations in 70 countries around the world. This suggests that we could easily triple the number in our own network

and certainly we see ample opportunities for growth." Much of this is likely to come from the Asia Pacific region, which still accounts for only 11% of the group's overall business, compared with 37% from North America and Latin America, 30% from EMEA and 22% from the UK.

Regus is already well established in the four BRIC economies of Brazil, Russia, India and China and expects to see significant growth in the next few years.

"Our basic business model tends to work well in all areas of the world and has proved one of our biggest successes," he says. "As it's a portable format, it can be moved anywhere."

The group also hopes to mitigate the effects of the downturn with its Businessworld membership card scheme launched in July, which offers mobile workers a menu of different levels of access to professional day offices, business lounges and cafes. "We have high hopes for Businessworld, which offers a broad range of benefits through its blue, gold and platinum cards."

One potential bone of contention appears to have been successfully buried as a result of the downturn. Earlier this year, a number of shareholders challenged the group's top-up bonus scheme for senior executives. The scheme was approved at the AGM in May but will not pay out unless the company's stock price exceeds 260p between three and five years from now. As the price has recently been nearer 55p, Regus is confident that shareholders will be more than satisfied if the shares move high enough to activate the bonus scheme.

Although the demands of the day job are considerable, Darnley devotes some of his free time to acting as treasurer and active volunteer for the charity Service by Emergency Rider Volunteers (SERV). The organisation provides an urgent blood courier service to the National Health Service, where he began his career.

"SERV is a totally volunteer-based network, providing an on-demand service free of charge to hospitals across the south east of England," he says. "This saves the NHS many thousands of pounds per year to use on essential services, and enables me to combine my interest in motorcycling with doing something good for the community."

Darnley sums up his first year as "one of constant change. There is a strong entrepreneurial spirit in the business which drives innovation and development. This provides an exciting environment which serves up fresh challenges on a regular basis. I am enjoying this and believe that treasury will play a key part in delivering all the promise that Regus offers."

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