# A LOT OF BOTTLE

## SABMiller group treasurer David Mallac isn't fazed by mega mergers, emerging markets or making 24-hour treasury a reality

Words: **Sally Percy** / Photos: **Charlie Best**

If you didn't know already, you wouldn't have to spend long in SABMiller's Woking office to work out that the company is in the business of beer.

The entrance lobby hosts a map of the world adorned with bottles of some of the globe's most famous brands. There are more bottles lining the windows, the meeting rooms are named after beers and, unsurprisingly, there is even a bar in the plush staff dining room. If you're a beer lover, there could hardly be a better place to work – and that's before you take into account the fact that SABMiller very generously gives its staff members a handsome 28 free cases every year.

"It's great for Christmas and summer barbecues," concedes SABMiller group treasurer David Mallac (who has what many finance professionals might consider a dream job). "It sounds a bit cheesy, but SABMiller is an extremely good employer."

No wonder, then, that Mallac has stayed in the post happily for the past seven years, having moved there after a stint as group treasurer of Alliance UniChem. "From drugs to alcohol, it was a natural follow-on," he quips. In that time he has presided over treasury's involvement in the group's $12bn takeover of Australian brewing giant Foster's, the rollout of a regional treasury centre programme known as 'Project Griffin' and a $7bn US bond issuance. And that's all on top of the day job, which is overseeing SABMiller's treasury operation across the globe.

SABMiller's portfolio of brands includes Peroni, Pilsner Urquell, Grolsch and popular South African beer Castle. It operates in more than 75 countries and developing markets are critical to its growth strategy. Because beer is heavy and expensive to transport across borders, SABMiller follows what Mallac describes as a "localised" business model, which entails building, or enhancing, a brewery in each country where it wants to establish a market. Hence treasury is involved from the start. The materials for building the brewery often need to be sourced from outside the country, thus bearing an FX risk. And while the commodities used to make the beer, such as barley or hops, can be grown by local farmers, these and other items that are needed in the production process – cans and bottles, for example – must often be imported, again with FX implications.

The nature of its business means that SABMiller is hugely exposed to the commodities market. It spends $5bn a year on raw materials and consumables, including agricultural produce, liquid, glass, paper labels, bottle tops and aluminium. Aluminium is a particularly large exposure for the group since a lot of beer is sold in cans. SABMiller hedges both price and supply risk, hedging aluminium for up to five years and certain agricultural products for up to seven years. Mallac sits on a committee that is charged with managing the group's commodities risks and, since 2010, the committee has focused on trying to reduce risk by securing commodities on a centralised basis.

As you would expect, operating in emerging markets invariably presents challenges. "The rule book is very opaque," Mallac explains. "The financial markets can be particularly underdeveloped and there are regulatory restraints on import and export of capital. Some countries have fiscal regimes that make it punitive to take money out." Nevertheless Mallac says SABMiller does not have problems with so-called 'trapped cash' – money that it is unable to repatriate back to the corporate centre. In general, it does bring most of its money back to the centre through cash pooling or internal deposits with the centre, loan repayments and dividends from subsidiaries and uses this to pay down debt or invest in the business. "It's only trapped because you choose not to bring it out, not because you can't," he states. "For us, it's mostly a question of when, not if."

SABMiller wants its relationships with its banks to be "mutually beneficial", according to Mallac. As such, it has a core of around 20 relationship banks that it uses for its day-to-day banking operations and liquidity provision (down

The nature of its business means that SABMiller is hugely exposed to the commodities market. It spends $5bn a year on raw materials and consumables from 36 when he first joined). In return for the banks' funding support, SABMiller offers them access to the lion's share of its ancillary banking business, such as operational banking, managing FX and interest rate risks, access to debt capital markets and commodity hedging. "We're very careful in the selection of those banks," Mallac explains. "Situations change and the composition of that group changes from time to time." SABMiller also benefits from global multi-currency cash pooling, but this is limited to countries that are not barred from participation for regulatory or fiscal reasons – predominantly those in Europe.

In November 2010, SABMiller's treasury embarked on 'Project Griffin'; a member of the team coined the name. As a griffin has the head of an eagle and the body of a lion, the name symbolises the company's UK treasury operation (which is also its global treasury centre) coming together with its European operation to create a regional 'centre of excellence' just outside London. (There is another interesting association, by the way: the griffin is renowned for protecting treasure.) The aim of the project was to create a centralised treasury function that SABMiller's European businesses could use to manage their risks and outsource their treasury activities to. This involved widely communicating the benefits of a centralised treasury function to those businesses. "From a management point of view, SABMiller's business is operationally decentralised," says Mallac. "Telling FDs that they will have to outsource their treasury activities was always going to be a challenge. We had to use influence and persuasion to win their support."

> Centralising FX is not straightforward when you mostly deal with currencies that cannot be traded outside the country concerned

Besides getting buy-in from senior personnel, the other obstacle to the Project Griffin rollout was SABMiller's takeover of Foster's, which was finalised in December 2011. Treasury put in place a $12bn financing facility, which was self-arranged on a club basis, at a very difficult time in the market. "With careful planning ahead of time, we delivered it in five days, including a weekend and a bank holiday," says Mallac. The team also purchased enormous sums of Australian dollars covertly to avoid spooking the market. "We look back with a huge amount of satisfaction on that particular transaction," says Mallac. Indeed, it landed the team the UK Large Loan of the Year award in the ACT Deals of the Year Awards 2011. Then, in January 2012, SABMiller issued $7bn in bonds in the US to refinance the acquisition facility. It was the second-largest consumer bond to be issued since 2008 and it attracted an order book of $25bn in three to four hours.

## DAVID'S TOP TIPS FOR SUCCESS:

1

**"Your first loss is usually your best loss. If the FX markets go against you, don't hope that things will get better. Make sure you have a Plan B to get out."**

2

**"Clearly identify the key issues and priorities and explain how these are being addressed to enable treasury to have a smoother ride with the company's senior financial leaders. Don't overcomplicate things."**

3

**"The MCT qualification gives a great foundation in core treasury techniques and requirements, but it should not be an end in itself. We do encourage team members to sit their exams, but there should be a depth of talent in the team, and a diversity of skills. The MCT is a key part of that skill set."**

4

**"My favourite gadget is my MacBook Air. I have been an Apple lover for nearly 20 years."**

5

**"The secret to my success is pure luck." (Note: *The Treasurer* suspects he is being modest here.)**

6

**"The most difficult question my FD is likely to ask is: 'Where are we on this?'"**

7

**"The best way to relax after a long day is with a nice, cold Peroni... obviously."**

While SABMiller's European treasury centre is now in existence, the group's goal is to have four regional treasury centres in total – one in Africa (this is already under way in Johannesburg), another in Asia and the final one in the Americas – all of which will ultimately be overseen by Mallac. He points out that this set-up, which covers all time zones, will effectively mean that SABMiller has a '24-hour treasury' with standardised processes and much better control, enabled by the use of a common IT2 treasury management system. This is no small achievement, given that the company's history is peppered with M&As that left a legacy of differing systems and processes. Bank rationalisation is the final piece in the puzzle and the group ultimately aims to consolidate its banking arrangements into as few regional banks as possible.

## VITAL STATISTICS

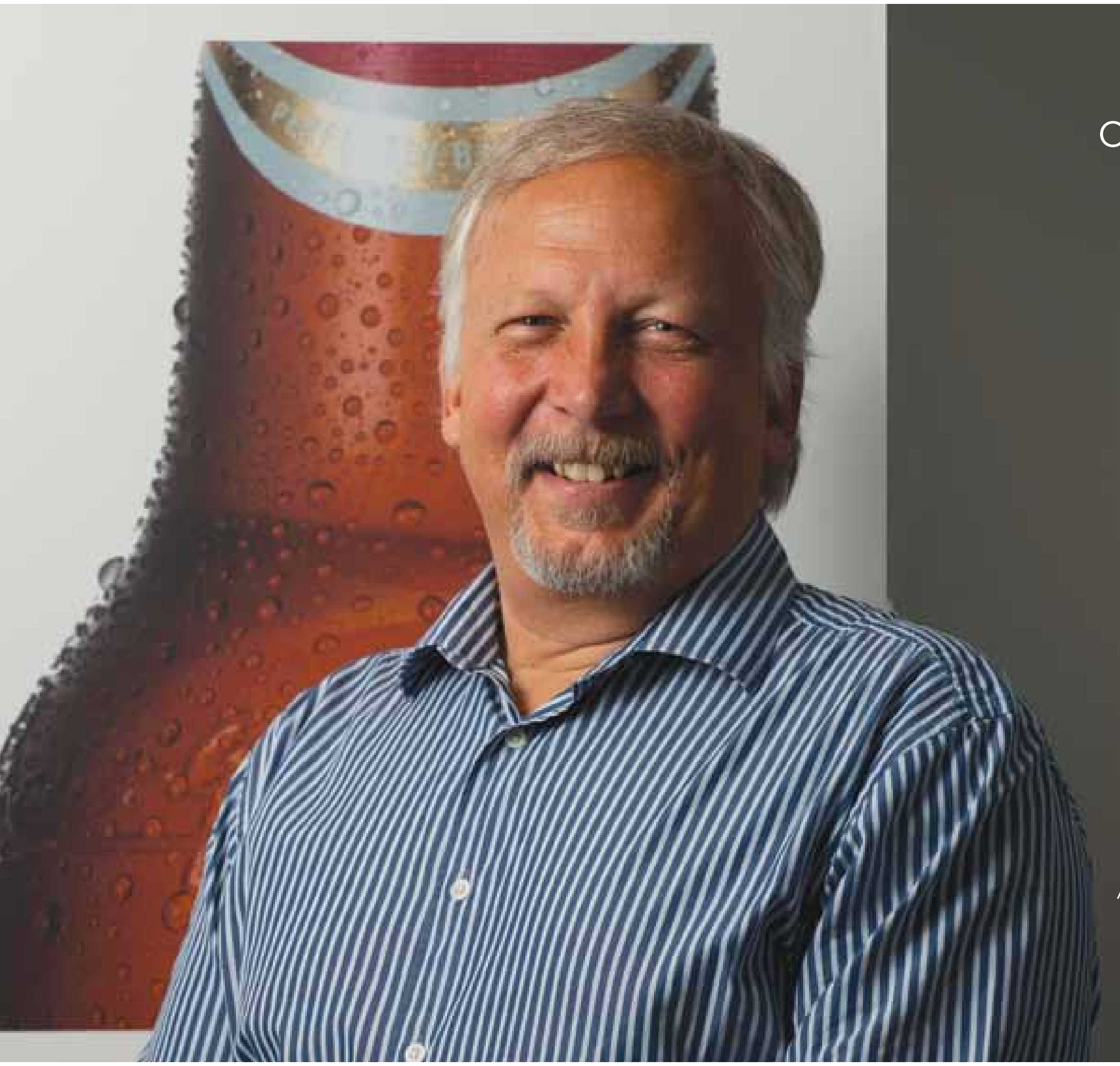
**200+**
brands are owned by SABMiller

**20+**
the size of SABMiller's global treasury team

**$100m**
the cost of SABMiller's new brewery in Onitsha, south-eastern Nigeria, which was formally commissioned by the country's president

**70,000**
people work for SABMiller around the world in more than 75 countries

**A$9.9bn**
was the price SABMiller paid for the shares in Australian brewer Foster's in 2011



## DAVID'S CURRICULUM VITAE

**October 2005 to present**
Group treasurer
SABMiller

**1998-2005**
Group treasurer
Alliance UniChem

**1993-1998**
Deputy treasurer
Rexam

**1990-1993**
Group treasurer
Isosceles

**1987-1989**
UK treasurer
General Electric

**1981-1987**
Various financial analyst roles
General Electric

**1977-1981**
Auditing roles and qualification
Deloitte, Haskins & Sells

**Qualifications**
FCT, ACA

SABMiller's treasury manages between $3-4bn of global FX exposure annually, with some $1bn of that in Europe. "Three and a half billion dollars managed in different countries is hugely inefficient," says Mallac. He points out that the transaction sizes handled by individual businesses are not as mouth-watering to banks as a larger sum would be. But centralising FX is not straightforward when you are mostly dealing with currencies that cannot be traded outside of the country concerned and SABMiller's rapid growth over the years also meant that the company had a host of other objectives to focus on. This resulted in FX work being done by FDs and financial controllers who were not treasury specialists – until Project Griffin came along.

"By consolidating the management of FX with experienced treasury professionals and introducing scale, the results are quite remarkable," says Mallac. In Europe alone, the company is already enjoying annual FX savings of $1m, pooling and central funding benefits of over $1m and a reduction in bank fees of approximately $500,000. Once the African rollout of Project Griffin is complete, it expects to enjoy annual net benefits in excess of $10m.

Mallac describes SABMiller's exposure to the eurozone crisis as "relatively modest" because its footprint tends to be in Eastern European countries, such as the Czech Republic, Romania and Poland, rather than in the West. It does have some exposure in Italy, however, thanks to its premium Peroni brand. Mallac sits on SABMiller's eurozone risk assessment committee, which meets on a monthly basis and assesses the whole spectrum of risks facing the company from supply to bank failure.

So SABMiller's group treasurer has plenty to think about. You might even say that his glass runneth over. But Mallac certainly isn't complaining. He exudes the air of a man who loves his work and who can blame him when he's doing one of treasury's dream jobs? He's guarding the treasure of one of the world's leading brewers. And, as we all know, there's a lot to be said for the business of beer.

**$31.4bn**
was SABMiller's annual revenue for the financial year ending 31 March 2012

**6,100+**
the number of Olympic-sized swimming pools that would be filled by the amount of beer that SABMiller sells every year

**Sally Percy** is editor of ***The Treasurer***