JUGGLING ACT

Chris King, group treasurer at private-equity backed foam manufacturer the Vita Group, explains how he keeps all his rings in the air

Words: **Sally Percy** / Photos: **Rob Whithrow**

The chances are that you've never thought about the foam padding in the seat of your office chair before. But if you're sitting comfortably, it could well be down to European foam manufacturer the Vita Group. That's because the group, which was founded in the UK more than 60 years ago, produces approximately 40% of Europe's flexible polyurethane (PU) foam. It is registered in the Cayman Islands and is controlled by US private equity (PE) house TPG, which took it over in 2005, although most of its operations are based in Europe.

Chris King, group treasurer of the Vita Group, has been with the company since 2007. Over the past three years, he has played an active role in supporting its large-scale divestment exercise involving the divestment of 32 subsidiaries, in 12 different transactions. It has slimmed down from being a €2bn turnover group supplying plastics, non-woven materials and cellular polymers with 7,500 staff and six divisions to a largely specialised PU foams business with revenues of approximately €600m and around 2,400 staff. The strategic goal has been to prepare the Vita Group for its next change of ownership.

As well as being involved with the sale and purchase agreements for the divestments, King is involved in upfront divestment planning. Furthermore, he helps to ensure a smooth transition of the divested entity to the new buyer during the actual divestment process. According to King, the sequencing of divestments is "a very difficult juggling act to manage" due to the huge execution risk of trying to effect the future exit of a PE firm at the same time. "If you're trying to plan a financing strategy, you have to consider all the execution risk within your divestment flows," notes King. "The sequencing of the divestments may change rapidly from week to week. We need to plan divestment timings to facilitate delivery of the corporate strategy." Alongside this divestment programme, the Vita Group has also opened new operations in Bulgaria, Croatia and Serbia (with minimum capital outlay) because these countries are important to its European footprint. As a by-product of selling off so many businesses, the group is now in a very healthy net cash position.

It's not just the sequencing of divestments that King has to juggle. He also has to manage a broad range of treasury and finance activities. Besides supporting the divestment programme, the Vita Group's treasury undertakes cash management activities, secures debt facilities, arranges insurance and trade credit insurance, oversees the company's UK-defined benefit pension scheme and provides critical management information (MI) for board reporting. "Because we're PE-backed, we're very cash centric in terms of our MI," explains King. Treasury also works closely with the purchasing function to ensure the group gets the right credit.

Interestingly, given that it isn't a well-known plc, the Vita Group is an incubator of treasury talent. It produced two of the ACT's Ones to Watch this year – Joseph de la Haye and Danny Clarke (see *Ones to Watch 2014*, pages 5 and 7). When questioned about the approach he takes to managing his team, King says he's laid-back: "I'm not actively seeking to mentor, but it happens naturally. My operating style is conducive to working collegiately in a team. I strongly support my colleagues." He does, however, believe it's important for treasury staff to hold professional qualifications, and credits the MCT, in particular, with helping him to land the group treasurer role. "You'd struggle to do a treasury role for a reasonably complex organisation without doing it," he explains. "It helps with the blind spots, but it's very intense. I finished my case study while I was on my honeymoon..."

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CHRIS'S TOP TIPS FOR SUCCESS:

1

"Working for a PE-backed business is great and it can be very rewarding. But the scale of PE can be quite limiting, so you need to make sure you don't just get boxed into being the cash management treasurer."

2

"The AMCT gives you a very broad base in corporate finance, treasury and risk to do most core treasury functions. But if you want to be a strategic treasurer, you do need to do the MCT. It gives you confidence because you have this vast strategic, broader corporate finance, risk and treasury oversight that you need to do your role."

3

"My favourite app on my iPhone is the cycling app Strava. I use it on my 35-mile round commute to work that I do by bicycle each day."

4

"The secret to my career success is candour."

5

"What's the most difficult question I could get asked by my FD? I don't get asked difficult questions!"

6

"The best way to unwind after a stressful day is by having a sauna."

CHRIS'S CURRICULUM VITAE

2011-present
Group treasurer, the Vita Group

2009-2011
Treasurer, the Vita Group

2007-2009
Treasury manager, the Vita Group

2006-2007
Senior project financial analyst, AstraZeneca

2004-2006
Senior finance manager, McCann Worldgroup

2002-2004
UK group financial accountant, McCann Worldgroup

1997-2001
Audit senior, Ernst & Young

Qualifications:
MCT (2010), AMCT (2009), ACA (2000)

Learning the hard way

King joined the Vita Group as a treasury manager just before the credit crunch struck. "I had two quarters of bedding myself in, then our trade started to fall away in the third quarter of 2008." By the end of the year, the group had entered into a standstill agreement (an agreement between the company and secured creditors whereby the company is given a window of time to put a formal restructuring in place). At the time, the Vita Group was seven times leveraged and didn't generate sufficient profit because of its high debt-servicing costs, and the unprecedented trading conditions at the time. "It was evident that the EBITDA was never going to come back in the required time to service the debt," says King. "A creative solution was required." That solution turned out to be a debt-for-equity swap, which was undertaken in April 2009. "Going into it, we had approximately €700m of debt," explains King. "Of that, €600m was exchanged for equity, leaving approximately €100m of residuary debt." A further €100m of additional liquidity was injected into the company through TPG and other funds, while several high street banks agreed to give the Vita Group a revolving credit facility. As a result of the debt-for-equity swap, TPG wrote off its initial investment and injected new funds into the business along with certain other lenders.

Thanks to the divestment exercise and improved trading, the Vita Group was in considerably more robust financial health by October 2013. So it undertook a complete refinance, using a specific structure that would protect its liquidity and reduce its debt-servicing costs. The existing leveraged buy-out bank facility was completely repaid and the group entered into a pan-European receivables-financing facility across seven territories with 23 companies. "We secured a facility based on the strength of our receivables," says King. "That's our main source of financing now." The group sourced this funding arrangement from France, but King describes it as an admin-heavy process. The upside, however, is that interest rates are low – over 5% less than the previous facilities.

Working capital management is now core to the Vita Group's funding strategy and it's a skill that its treasury team has honed. Trade credit insurers supply the oil to the wheels of credit that underpin working capital management because they provide the credit insurance that enables the Vita Group to maximise payment terms from its suppliers. Fortunately, the Vita Group's purchasing power means that it is in a good position to negotiate extended terms. "In the European market, we're a very significant buyer of our particular type of bulk chemicals," King explains.

While King's remit clearly differs from that of many corporate treasurers who work for large listed companies with expansion ambitions, he likes the different perspective that he gets from working for a PE-backed company. He's motivated on the basis of helping to achieve an exit for the backers, a situation he's comfortable with. "I enjoy doing the core treasury," he says. "But I also have exposure to the corporate finance aspects of business that I wouldn't necessarily get in other organisations.

"To any leveraged business, treasury is fundamental," King notes. "To any PE business, even if it is not leveraged, treasury is very fundamental because it is the custodian of cash and it has knowledge of corporate finance and the management of capital and how it's deployed. Most PE houses have a very good understanding of deployment of capital and return. In publicly listed companies (plcs), there's an assumption that profit and loss will convert to cash, but that assumption isn't always valid."

"I'm probably most likely to become group treasurer of a larger organisation or I may become CFO of a smaller one. But as long as it's a commercial challenge, I'm happy to go either way"

In total, the Vita Group works with about 20 cash management banks and King likes to keep a close eye on them. "On the first day that I was group treasurer, all the UK banks were downgraded," he recalls. "Suddenly, our treasury policy didn't work any more." The policy was 'cliff-based' in the sense that one downwards notch in a credit grading would result in a bank being able to hold significantly less of the company's cash. Also, there were no early-warning signs, such as credit default swap (CDS) spreads, bond yields, spreads of bond yields versus the market norm, and share prices. Danny Clarke, who is deputy treasurer, mapped out the Vita Group's new treasury counterparty risk policy as a project for his MCT. The policy uses a traffic light system of red, green and amber to indicate the likelihood of default, taking into account primary credit ratings, secondary credit ratings, share prices, bond yields and CDSs.

Know your risks

There is, it seems, no room for complacency in the Vita Group's treasury. "Counterparty risk is always a risk and you need to understand what your counterparty is, in every aspect of credit," observes King. "Is the risk loss of capital? Loss of liquidity? A threat to the supply chain? If you work in any business, you need to address counterparty risk, but you need to look at all facets of risk."

The Vita Group has a large presence in Eastern Europe and supplies Russia and the Ukraine, which King describes as "political hotspots in terms of overall risk profile". He adds: "Our exposure there isn't overly material for the group, but still remains a concern. We look at our credit risk and work with our trade credit insurers to get a view on what's happening. Trade credit insurers are very good on early-warning indicators, such as payment behaviours and overdue invoices. They help us to manage both the trade and the receivables risk. We haven't reduced our trade there yet and there are no signs in our end markets that would make us do anything other than that." Nevertheless, King monitors news feeds closely and proactively seeks advice.

Given that King has a better idea of his career destiny than most of us do at any point in time – he's working towards that PE exit, which will also mean his own exit from the business – what does he think the future holds? "I'm probably most likely to become group treasurer of a larger organisation or I may become CFO of a smaller one," he concludes. "But as long as it's a commercial challenge, I'm happy to go either way."

Sally Percy is editor of *The Treasurer*

VITAL STATISTICS

40%
the approximate proportion of flexible PU foam produced in Europe that is manufactured by the Vita Group

€617.2m
the Vita Group's continuing turnover in 2013 (€908m reported)

€7.4m
the Vita Group's pre-tax profit for 2013 (continuing business)

2,400
the number of people employed by the Vita Group

1949
the year in which the Vita Group began, originally as Vitafoam Ltd

14
the number of countries in which the Vita Group operates