

Tobacco road



BAT'S DEPUTY
GROUP TREASURER
NEIL WADEY EXPLAINS
TO **GRAHAM BUCK**
HOW CENTRALISATION
IS AT THE HEART
OF INCREASINGLY
GLOBALISED
TREASURY
OPERATIONS.

PHOTOGRAPHER: ROGER HARRIS

With a presence in 180 markets around the world, British American Tobacco (BAT) is a stalwart of the FTSE 100. BAT has around 300 brands, with manufacturing and processing activities in nearly 70 countries and a market capitalisation of nearly £44bn.

Deputy group treasurer Neil Wadey says the group regards tobacco products as its heritage and has no plans to move away from this area. While the global market for tobacco has shown a marginal decline, favourable demographics in many developing markets are helping to offset falling consumption in the West.

When Wadey first joined what was then BAT Industries, nearly two decades ago, the group was a somewhat different beast. Until recently, it had been what he describes as an “archetypal conglomerate”, involved in a range of sectors such as paper and pulp, retail and insurance. In the early 1990s, BAT was parent to Eagle Star and Allied Dunbar, and also owned US insurer Farmers Group.

During the late 1990s BAT returned to its core business of tobacco products. The group’s head office is still in central London and the treasury focus was on funding and returning cash to the centre in the UK to support its dividend flow, says Wadey. “The UK is not a significant market for us. The key ones include Brazil, Russia, South Africa, Australia and Canada.”

He adds that Western Europe is the group’s most developed region from a treasury structure point of view but it is currently active in Latin America and Africa, developing its cash management activities so it can get its cash back efficiently.

“We benefit from emerging markets exposure but also enjoy a good grounding in the developed markets,” he says. “Our gross debt is between £10bn and £11bn, which historically has been 20%-25% bank-funded, and the remainder bond-funded. We’re supported by a strong group of relationship banks and we use the debt capital markets, being active in the euro, sterling and US dollar 144A markets.

“We look at what will be the best possible execution for our target maturities, interest and currency profile, direct or swapped, to decide on issuance. Although we’re not a frequent issuer, we are a regular one.” BAT’s most recent forays into the bond market were for debt buybacks and exchanges last November and again in June this year (see *The Treasurer*, September issue, p28). Both received a positive reception.

“We carefully manage our portfolio, having recently taken out maturities that

were due in 2011, 2012 and 2013 and replaced them with longer-dated maturities, reflecting our views on the attractiveness of spreads and all-in rates and the market appetite for our paper,” he says.

The career path that led Wadey to BAT began with a mathematics degree from Cambridge University and, after graduating, training in chartered accountancy with KPMG.

“In the post Big-Bang era of late 1986 and 1987 I looked at a number of corporate finance groups and merchant banks but, wanting something more varied, eventually went to work for the Hambro brothers, who had recently sold their interest in Hambros Bank,” recalls Wadey. “I was with them for about four years, joining as a consultant, and also worked on structuring their investments and getting involved to some degree in venture capital development.”

He wanted something “more structured” for his next career move and considered a number of blue chip companies, ultimately settling on BAT Industries.

“I joined to cover both general finance and mergers/acquisitions. I had got some experience in M&A at KPMG and with the Hambros. I was excited by the opportunities that the changing Eastern Europe would bring to the business.”

While BAT had already made some divestments by the early 1990s it was still a major force in the insurance sector. However, Wadey’s work was with the core tobacco business, focusing on continental Europe, the US and the developing markets of Eastern Europe, including Hungary and Ukraine.

Moving on from this transactional role he was involved in developing an integrated operating strategy for the group’s five major tobacco companies, which were being merged into a single unit. This, in turn “morphed into more of a business development role and a move into marketing finance, which basically focused on the financial efficiency of our various marketing strategies”.

This role extended to include BAT’s sponsorship of Formula 1 racing and he was seconded by the group. This enabled him to move up to the Midlands as FD of the group’s Formula 1 team.

“At the end of the 1990s, I moved back to the core business and sought international experience with one of the group’s main subsidiaries in Mexico,” says Wadey. “I was already familiar with the company structurally; I’d worked on its acquisition back in 1997. As that subsidiary carried a certain amount of debt, I started touching on treasury issues and adding

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these to my financial and marketing capabilities. So a three-year period working in Mexico proved to be the entry point to my treasury career."

Wadey moved back to the UK to join BAT's treasury in London in 2002. He had already had regular contact with the team and with David Swann, who had joined two years earlier as group treasurer and would later go on to serve as president of the ACT.

"David was keen to change treasury into a more integrated business partner and add people with direct experience in the business to his team, while I was looking to move back into more of a corporate role and this fitted the bill. So initially I started off as corporate finance manager, working in the areas of debt and the capital markets, then I added financial risk insurance and responsibility for equity, which led to the role of deputy group treasurer, where I am now."

MCT STUDENT OF THE YEAR He admits that in the early days he was uncertain whether he would remain in treasury for the long term, but quickly sat the AMCT diploma and then the MCT advanced diploma, winning the accolade of Student of the Year in 2005.

"When new entrants come into the department and have no previous treasury experience we encourage them to at least accomplish AMCT, and if possible to progress to MCT," he adds. "Four or five of my team have the MCT diploma, several more have achieved AMCT, and two are sitting it at the moment."

The treasury team now numbers 28 and although BAT has pursued a policy of centralisation in recent years, the treasury has retained some of its overseas resources in both Singapore and the US. In addition to corporate treasury, which handles areas such as funding, risk management, capital structures and equity policy, BAT has set up a commercial treasury team recently, bringing together the various disparate regional groups.

"David started us off on the process of co-ordination," says Wadey. "That process has accelerated in recent years as the group has become much more of a global enterprise. We now have to support both in-market and above-market activities such as the global supply chain."

"We need to be more co-ordinated and compact in order to do this, with greater flexibility and a central pool of support. So the process of bringing our regional treasurers closer to the centre has

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also been speeded up since early 2009, which has helped with the transfer of expertise and knowledge."

The mix of major issues faced by BAT and others in the tobacco sector differs to some degree from that of other blue chips.

"Litigation is plainly an issue for the group, so we manage it carefully," says Wadey. He adds that regulation is an area of major importance, with a strong impact on how BAT does business. "Smoking bans can create short-term volatility."

Although commodity prices have been notoriously volatile in recent years, BAT has felt less impact than many other companies. "Tobacco is an agricultural commodity, so it moves much in line with other crops such as soya and ethanol, which drives some of the cost pressures and cyclicity," explains Wadey. "But it tends to follow a rather gentler price curve than many other commodities such as oil and isn't really a hedgeable item – although you can in theory hedge against certain elements such as the weather. We're pretty much vertically integrated, working closely with farmers for around 70% of our total tobacco needs and we have a significant leaf business."

"The risk area also comes under my department and we manage both our interest rate and FX risks. Translational FX is very significant: we work to secure the dividend in sterling terms from the earnings around the world. However, we don't engage in longer-term balance sheet hedging beyond using our debt liabilities. We use currencies from Australian dollar to yen and many between to match our major currency flows but our debt is mainly in euros, dollars and sterling."

Wadey says that debt investors and ratings agencies are very comfortable with the stability of the group's cashflows. Its bank portfolio provides a major backstop facility and is able to respond to its various banking needs around the world.

"We've also worked with the board on developing pre-agreed financial parameters, such as what our debt profile should look like, and how much of it we want to mature in any one year," says Wadey, "so we already have good guidelines in place before we develop a strategy. This helps make our job very clear and leads to a clear financial and strategic rationale to carry out the bond extension trades."

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