

# NORTHERN LIGHT

Treasury helps to deliver the strategy of Newcastle-based business management software and services giant Sage. Group treasurer John Swift explains why

Words: **Sally Percy** / Photos: **Sarah Deane**



John Swift could have ended up working in murky coal pits instead of futuristic, light-filled offices in a prestigious business park. That's because the Sage group treasurer originally studied mining engineering at the University of Newcastle upon Tyne before changing tack and embarking on a career in finance in his early 20s. "When I graduated in 1985, the miners' strike had just finished," he recalls. "The mining sector was quite depressed and there weren't many opportunities. So that's why I went into finance."

While mining engineering and finance may appear to be very different disciplines, there are some similarities between the two. "On my course, we did discounted cash flow calculations because my degree equipped you to become a manager of a mine," Swift explains. "You had to understand not only the engineering aspects of mining, such as rock mechanics, but also the management and finance aspects."

Swift worked in audit with Ernst & Whinney (now part of EY) then "got into treasury by accident" when he took a job as treasurer of a UK subsidiary of French manufacturing company Saint-Gobain. "I much preferred treasury to accounting and audit work," he says, and his ascent up the treasury career ladder was speedy. He worked for an NHS trust and listed electrical retailer Dixons before landing the role of group treasurer at privately owned engineering consultancy giant Mott MacDonald, a £1.2bn-turnover business, in 1998. "I had just passed my MCT and that helped me to get the position," he reveals.

The role at Mott MacDonald appealed to Swift because it enabled him to combine his interest in engineering with his expertise in finance. It also gave him the opportunity to set up a treasury department from scratch. He joined the company in the wake of the Asian currency crisis and was

charged with mitigating the FX risks associated with the company's international projects alongside more standard cash management activities.

## Backwards then forwards

After nine years at Mott MacDonald, which is based in Croydon, Swift and his wife decided that they wanted to return to the north for family reasons. So he took a job as group treasury manager at FTSE 100 business software company Sage, knowing that, in the short term at least, he was going backwards in his career. "The position was more junior than I was used to," he admits. "But I was left to get on with things rather than always having to check with the group treasurer." His career gamble was rewarded when the group treasurer moved on in 2011 and he was promoted to the role. Now Swift oversees Sage's treasury operations with a treasury manager. Furthermore, finance people in the group's North American, French and Spanish subsidiaries perform treasury tasks in compliance with group treasury policy while reporting into a local FD.

Sage is a very cash-generative business, which resulted in it being in a net cash position by 2011. So that year it decided to review its capital structure with a view to making it more efficient. Wanting to make its balance sheet work harder, it set out to achieve a minimum leverage ratio of 1x net debt to EBITDA within 18 months, a gearing that Swift describes as "very comfortable for us and for our debt providers".

Sage had a three-pronged strategy for achieving its goal. This entailed making acquisitions, buying back its own shares and giving a special dividend to shareholders. It began implementing its strategy in 2011 with a share buyback programme. Then, in 2012, Sage bought a 75% stake in





## JOHN'S TOP TIPS FOR SUCCESS:

◆  
“You have to understand your business and be in constant contact with the key people there.”

◆  
“You should always keep your banks and debt providers up to date so that they don't get any surprises.”

◆  
“The best thing about being a member of the ACT is that you're constantly kept up to date with the latest thinking in treasury. The exams and training, in particular, give you a solid base on which to build your career.”

◆  
My favourite gadget is my iPhone and I like my MapMyRun app because I'm a keen runner. It's good for making sure that I'm improving and seeing whether I need to do more training.”

◆  
“The secret to my success is my technical knowledge, which is supported by the ACT, and also my integrity.”

◆  
“What's the most difficult question my FD could ask? If we're talking about treasury, I should know the answer. And if I don't know the answer, I should be able to find it quickly.”

◆  
“The best way to unwind after a stressful day is to go for a run.”



## JOHN'S CURRICULUM VITAE

### 2011-present

Group treasurer, The Sage Group plc

### 2007-2011

Group treasury manager, The Sage Group plc

### 1998-2007

Group treasurer, Mott MacDonald Group Limited

### 1995-1998

Treasury analyst, Dixons Group plc

### 1992-1995

Treasury accountant, North Tees Health NHS Trust

### 1990-1991

Treasurer, TSL Group (a subsidiary of Saint-Gobain)

### 1985-1990

Auditor, Ernst & Whinney

### Qualifications

FCT (2013), MCT (1998), AMCT (1995)

Brazilian accountancy and regulatory software provider Folhamatic Group for £125m. Finally, in June 2013, it paid out a special dividend of 17p per share to shareholders.

Treasury has been closely involved with helping Sage to achieve its desired new capital structure. “We had to make sure that we had adequate funding in place to supply the buyback programme and the special dividend,” says Swift. “We had to make sure that the cash was there for that, and in the right place at the right time. This involved a lot of cash flow forecasting to work out when we would hit the desired leverage ratio.”

But it was the Brazilian acquisition that presented the greatest challenge from a treasury point of view. Brazil's currency, the real, is not convertible and strict controls exist to prevent the currency being taken offshore. In order to fund the acquisition, Sage's treasury had to send sterling to the Brazilian nostro account of the bank that the company was doing the FX deal with. (A nostro account is an account that a domestic bank holds in another country, which is denominated in the currency of that country.) Sage then had to categorise how much of the cash it sent was debt and how much of it was equity, and then complete extensive documentation in order to carry out the FX deal (ie sell sterling to buy reals). Once regulators had approved the documents, Sage was able to complete the deal. Sage's Brazilian account was then credited with reals, which the company used to pay for the Brazilian business.

“It wasn't a really long process, but it was complicated,” says Swift. “Because there were extra things to worry about. We wanted to structure the financing of the subsidiary so that we could repatriate profits from it in as many different ways as possible. We put both debt and equity in so that we could extract profits from the business via dividends to the holding company or via interest repayments or debt repayments.” A further complication was presented by the fact that if debt principal was repaid too early, tax charges could be incurred. Swift says Brazil is a complicated market to repatriate cash from because of its strict currency controls.

### Natural hedges

Transaction FX exposures are not a major concern for Sage. It can mostly keep its FX exposures to a minimum using natural hedges because its costs and sales in each of the countries in which it operates are denominated in the same currency. “After country offsets, our principal exposures are to the US dollar and euro,” says Swift. “So we have two tranches to our five-year revolving credit facility [RCF] – a dollar tranche and a euro tranche. Generally, we would have debt in dollars and debt in euros at any point in time. That is rolled on a monthly basis.” Every month, Sage's treasury gathers in surplus cash from each of its businesses and that cash comes back to group treasury to repay some of the debt interest and capital.

A syndicate of 11 banks provides Sage's RCF, which was last renewed in June 2014. These banks principally share the company's cash management business between them. “We have a strict policy whereby, if we have some ancillary business, we would always give those 11 banks the opportunity to get it,” notes Swift. “We have a good spread of syndicate banks and they generally operate in the countries that we operate in.”

Besides the RCF, Sage also raises funding from the US private placement (USPP) market. It has secured \$700m since 2010, raising \$300m in five-year, six-year and seven-year notes in 2010, and a further \$400m in five-year, seven-year, 10-year and 12-year notes in 2013. “Our EBITDA is around £400m, which



## VITAL STATISTICS

**24**

the number of countries in which Sage is present

**12,700**

the number of people who are employed by Sage

**£1.4bn**

the turnover of Sage in 2013

**£164m**

Sage's pre-tax profit in 2013

**4%**

Sage's organic revenue growth in 2013

**2 million**

the number of conversations Sage has with its UK customers every year

**80%**

the amount of Sage's customer base that consists of start-ups and small businesses

**1981**

the year in which Sage was founded

equates to around \$700m," Swift explains. "We think that Sage's long-term leverage target should be underpinned by long-term debt, so we see the USPP as our core debt." Sage has never needed to issue corporate bonds, so it doesn't have an official credit rating. But in the USPP market, the company is rated NAIC2+, which Swift says is "good" and "helped with the banking facility renewal because it shows the company is a strong credit".

At present, one of Sage's strategic priorities is moving more of its customers onto a subscription model. With a subscription,

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customers pay for their software on a monthly basis, which enables them to get the latest version of software with support included in the package, while at the same time spreading the cost. And treasury has a part to play here, Swift explains. "As you move from a model when customers pay you upfront to a more subscription-based model, there are working capital constraints. So we have to make sure that, as we move to that model, we have adequate funding in place to finance the transition."

Swift also explains that Sage is constantly innovating because it has to ensure that its technology constantly meets the needs of its customers. "From a technology point of view, we have to make sure that we have adequate funding for any research and development and capital investment that we need," he says. "Technology investment may take the form of acquisitions as well." Sage is heavily focused on growing its core business, which means that it has been disposing of non-core businesses over the years. Again, treasury makes an important contribution to business strategy – in this case, by ensuring that the proceeds from disposals are safely dispersed in deposits with a range of different banks.

He might have turned his back on mining, but Swift has no regrets about the alternative career path he's taken and is optimistic about the future. He likes the fact that "every day is different" in treasury and believes that his chosen profession is the right fit from a personal perspective. "In five years' time, I still see myself as group treasurer of Sage or another large global business," he says. "I'm not ruling out a CFO role, but I see myself primarily as a group treasurer of a large business. Sage is in a fast-moving environment, so I'm constantly challenged at the moment." ♡

Sally Percy is editor of *The Treasurer*