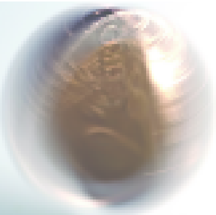
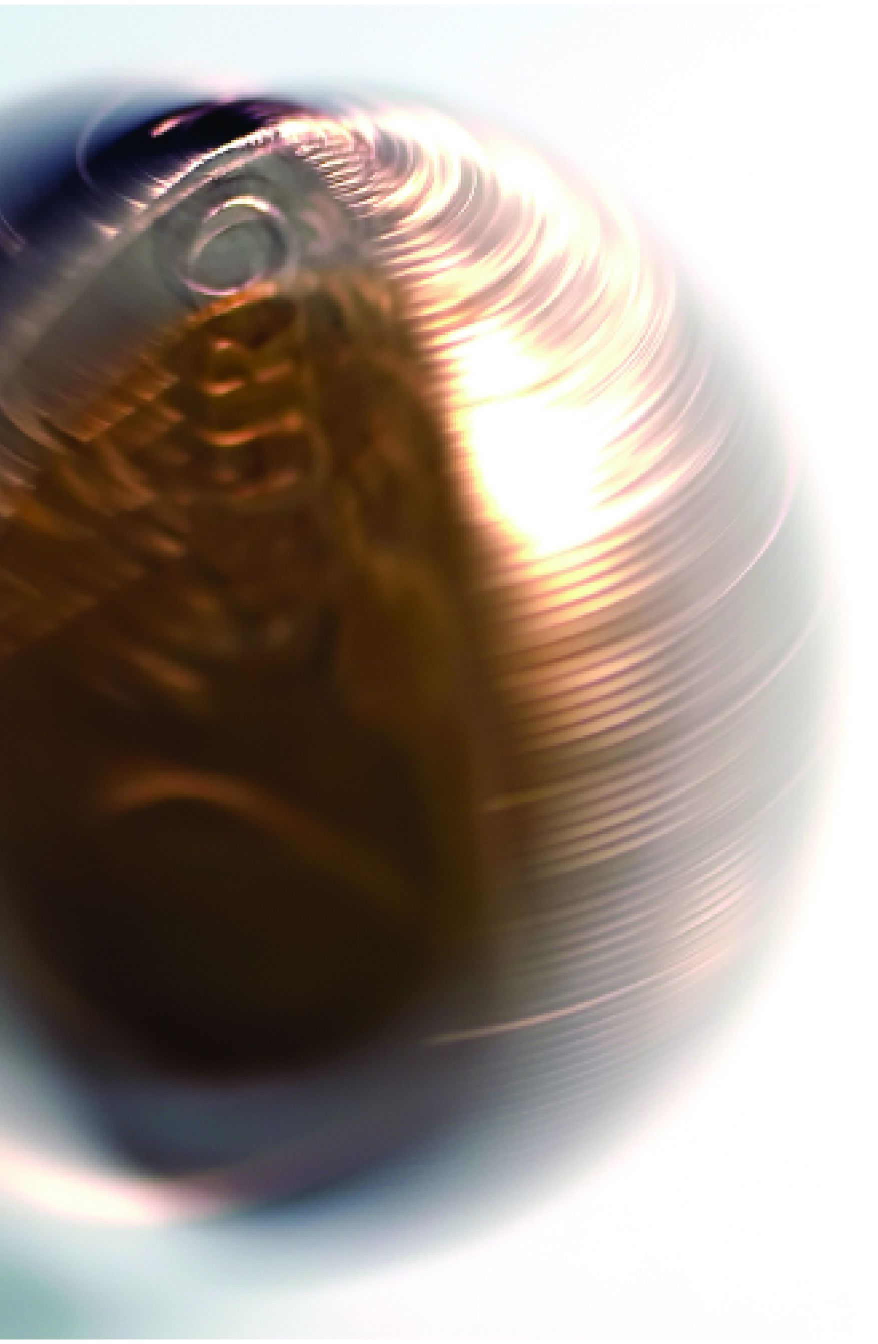


Spinning gold

HOW CAN UK TREASURERS MANAGE OPERATIONS – INCLUDING CASH MANAGEMENT – IN MULTIPLE OVERSEAS TERRITORIES? GROUP TREASURERS JOHN JACKSON AND CHARLES BARLOW EXPLAIN HOW THEY DO SO FOR THEIR COMPANIES.



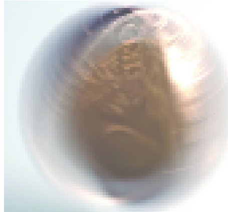
Coats is the market leader in industrial threads and yarns, with a turnover of $1.6bn, *writes Peter Williams*. It operates in more than 70 countries to service its global customer base. The group's HQ remains in the UK but, reflecting the international nature of its business, it reports in US dollars. Charles Barlow, Coats group treasurer, says: "We moved to the dollar as the functional currency to minimise the translation effect on the balance sheet. A lot of our business costs are dollar-denominated, such as the price of oil and energy, and nowadays most of our threads are formed from polyester fibre [a byproduct of oil], so using the dollar makes sense."

HISTORY In 2004 Coats became a subsidiary of investment holding company Guinness Peat. In line with other businesses acquired under the private equity model at that time, Coats was purchased with considerable leverage. And although the amount of debt has subsequently fallen over the years the cash management habits acquired during that period are ingrained. Barlow says: "The pressure created by being highly leveraged is now thankfully part of corporate history, but the cash and liquidity management practices instilled by treasury, when debt and headroom were critical, continue to serve the company well."

Barlow is very clear about the key cash management issues. He says: "The most important issue in cash and liquidity management strategy in critical times is to know exactly where you are. It is as important to have an accurate idea of where the cash is and what banking facilities are available to you as it is to know how cash is going to move, so you can extract maximum value from the system at any point in time to cover for shocks."

Much of the work of Barlow and his treasury team is about how to remit cash from overseas operations to the UK. Barlow says: "Wherever possible, remittance should be permanent, via dividends or capital reductions. If there are significant leakages associated with permanent distributions, we explore what can be done as a temporary measure, usually via intercompany loans from the subsidiary to the centre, while we investigate alternative mechanisms to repatriate funds with our tax, corporate finance and legal colleagues."

THE WEEKLY VIEW The tool used by Coats to asses the liquidity of the group is the weekly cash position report.



Barlow is keen to stress that the e-treasury report, is not just about cash but every liquidity utilisation at the disposal of the group and its subsidiaries. This information is given by currency, entity and bank account, and includes bank facilities, overdrafts, trade finance and banks guarantee. In summary, it covers anything that utilises a credit facility.

Treasury is looking to see how much of each local facility has been utilised. The report provides valuable insight into whether one region has a facility that it does not require or whether an entity is in a position to remit cash to the centre. Barlow notes: "We find the ability to see the banks' total credit facility utilisation most beneficial. It enables us to potentially reallocate spare capacity in one country to another country without the need to increase a bank's overall exposure to the group."

"THE CASH AND LIQUIDITY MANAGEMENT PRACTICES INSTILLED BY TREASURY, WHEN DEBT AND HEADROOM WERE CRITICAL, CONTINUE TO SERVE THE COMPANY WELL."

In its 2010 results, Coats' net debt average was $300.5m, down from $367.2m the year before, with gearing standing at 47% and 55% respectively. Six years ago it was a different picture – at the start of 2004 net debt was $672.8m. "It's the business that is responsible for these improvements; in treasury we just provide the oil to make the cash flow smoothly."

While the company remains a net borrower, every spare dollar or pound of cash generated is used to further reduce the debt burden. Barlow acknowledges that the company's previous high levels of debt has shaped his outlook and thinking. He says: "When you learn your craft in an organisation which is leveraged, then you make sure that cash and liquidity management is performed thoroughly. And even though the need is no longer as intense, you don't lose that drive for cash, it is ingrained throughout the organisation."

Another regular report scrutinised by Barlow and his colleagues is what he dubs "the sinners' report", which is again driven by the fact the company has debt. It seeks to highlight which companies within the group have surplus cash, and from there treasury can work out the best way to repatriate it to head office.

Coats' banking group plays its part in the drive for cash management efficiency, servicing the company in the regions across the globe where it operates. Working with a knowledgeable relationship manager who understands the company's cash and liquidity management objectives brings benefits, says Barlow, as they are able to suggest ideas and solutions and work with local financial directors. He adds: "It's a four-way relationship involving bank and company representatives in the UK and in country. When everyone agrees, you know it's all working properly, though on occasions this can take some time!"

ENACTING THE POLICY Despite the widespread geographic responsibilities, the small treasury team in the UK consists of three treasury professionals. As well as Barlow, there is international treasury manager Robert Sales and corporate treasury manager Ketan Khagram.

In each territory the treasury work is the responsibility of local financial managers. So while the treasury policies are set centrally, it is in the local companies where those policies are enacted, with the treasury team working as closely as possible with local finance managers. Barlow says: "We always try to take time to explain our objectives to the local teams. We think this is a better approach than just issuing a set of rules which can quickly become redundant. If we explain our objectives and why we want to achieve them we find that ideas emerge locally about how to move ahead which we as a treasury department sat in the centre may not have thought about."

While the cash management policies are working well for Coats, as in every walk of life there is always room for improvement. Barlow says: "The biggest challenge we have is to achieve greater standardisation and automation of routine tasks. Our weekly reporting is largely a manual process and we would like to increase the automation, allowing individuals more time to support their local businesses."

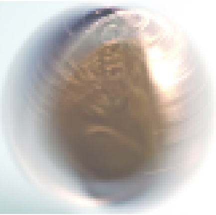
And as far as cash management is concerned, the key is to ensure the visibility of the available cash so Coats can continue to drive efficiencies. Barlow says: "Without doubt, generating cash is a top priority for Coats. But it is only half the story. There is no point in generating the cash and then letting it sit overseas. In that way we would only be doing half our job. The other half is bringing it back to the centre to make it work."

Engineering group Weir celebrates its 140th anniversary this year, *writes Graham Buck*. Originally founded as a Glasgow business in 1871, it is today a FTSE 100-listed company that operates in more than 70 countries and has a workforce of over 11,000 people. Revenues for 2010 totalled £1.635bn and pretax profits rose strongly to £294.7m.

The world's largest producer of pumps for the mining industry, Weir has benefited from the rapid economic growth in the emerging markets of China, India and Brazil.

"We're a global company that has expanded through a mixture of organic growth and acquisition," says group treasurer John Jackson. "We're particularly keen to grow further in the emerging markets, and being very customer-driven we set up business in those parts of the world where they take us, particularly in the mining sector." Weir began 2011 by announcing eight new sales offices in China to service its growing pumps and valves market.

Although it would be wrong to describe the group as recession-proof, it was shielded better than many other multinationals from the effects of the global economic downturn. Despite many customers reducing their capital expenditure for new projects, the group's revenues were sustained by its after-service and spares operations, to the



extent that 2009 results still reported a 3% rise in revenue to £1.39bn and a 6% fall in pretax profit to £187m.

In the oil and gas sector the group is active in five continents and has focused particularly on upstream businesses in North America, where relatively new drilling techniques such as those used in the extraction of shale oil and gas are now being developed. Jackson says that Weir's task is to respond promptly and effectively to market developments and to establish a sales and service capability in new regions that are opening up.

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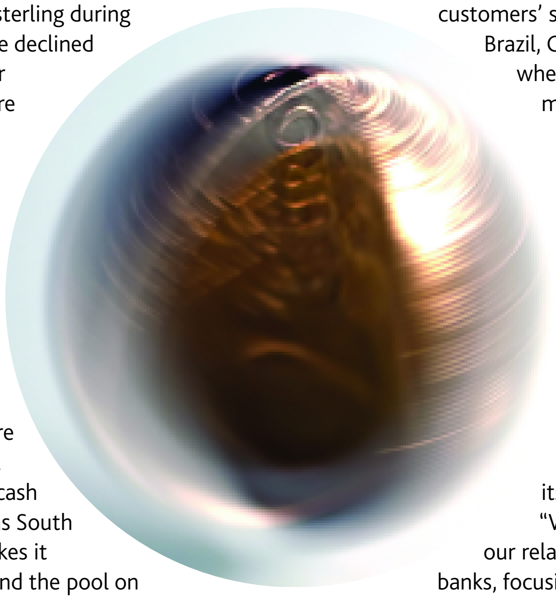
COMMON APPROACH At the Glasgow head office the group's relatively small treasury team follows a common approach to currencies around the world, reducing cash balances overseas wherever possible and looking to repatriate funds to the UK to help pay down group debt. Weir benefited from the weakness of sterling during 2008 and early 2009, when cable declined from over $2 to $1.35, as a major proportion of its total earnings are derived from North America.



Cash management is handled by treasury dealer Neil Stirling, who reports that the aim is, where possible, to set up a cash pool in each country the group operates in and then to manage it from the UK. For those regions of the world where obstacles arise in getting funds out of the country, or where pooling is not available, the local operations are more involved in cash management. "In a region such as South Africa the regulatory process makes it impossible to either fund or defund the pool on a daily basis, so we have to allow our local business to carry out the day-to-day cash management while we lead with a more long-term approach," says Stirling.

He adds: "In much of, say, South America, currencies are non-deliverable and we can't borrow from them directly, so first we need to swap to US dollars onshore. We are further restricted by local regulations and the time that it takes to secure approvals."

The cash management operations have been little affected by the political instability that has swept through the Middle East and North Africa in recent months, although Weir is one of many global companies that has run up against sanctions and embargoes.

COMMODITIES UNDER REVIEW Despite the price of raw materials such as copper having risen, the treasury department has not yet engaged in commodities hedging. Jackson says that although different metals are employed in various manufacturing processes, the company is not overly dependent on any one commodity.

"We are keeping this area under close review," he says. "As the financial markets in various commodities further develop, we will work with our operations colleagues and get more involved in the process."

Booming demand for commodities also translates into increased demand for the group's products and services. Not only is existing machinery used more, but Weir also meets the demand for new technologies in areas such as shale extraction, as well as durable machinery equipped for territories with a more testing environment or where extraction is more difficult.

Weir is a UK plc, but the majority of its turnover is from overseas. "Our production facilities are close to our customers' sites, particularly in countries such as Brazil, Chile, Australia and South Africa, where we have an active presence in the main mining regions," says Jackson.

"We aim to support these businesses going forward. Many of our contracts with these clients are sizeable. Our manufacturing for them is carried out on a bespoke basis to a specific design, so we don't necessarily have a set price list for our products and services."

He adds that treasury keeps a close eye on the credit quality of its banks and where Weir deposits its money.

"We work at maintaining and growing our relationships with the better-quality banks, focusing very much on the group's funding providers. And in those parts of the world where it isn't possible, then we strictly limit the amounts that we place with local banks."

Stirling adds that the group is now implementing SWIFT's messaging service. The first phase of the project was completed in April, and further phases to bring other banks on board will be introduced over the months ahead.

"The problem with being a truly international group is the paucity of information that is readily available in some regions," he says. "But with around 450 banks in SWIFT's network, you have a better chance of getting balance reporting on a daily basis if needed and keeping a close tab on how your cash is moving."

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