

# Winner

## The X factor

### ITV

AGAINST A BACKDROP OF CORPORATE RESTRUCTURING, WITH SUPPORT FUNCTIONS BEING DOWNSIZED AND REORGANISED, THE ITV TREASURY TEAM PERFORMED BRILLIANTLY IN PROACTIVELY MANAGING FINANCIAL RISK, RESCHEDULING DEBTS FALLING DUE WHILE AVOIDING RESTRICTIVE COVENANTS.



#### WHY THEY WON

Thanks to a successful finance raising led by the treasury team, the company decided against a rights issue, improved working capital management and ended up with a stronger balance sheet.

As the UK's biggest commercial television producer-broadcaster, more than 70% of ITV's revenues is generated from TV advertising and sponsorship. The business has a high degree of operational gearing, is exposed to the economic cycle and is highly regulated. It competes for advertising revenues with other commercial channels and other forms of display advertising, particularly online. These factors, combined with technological change and the migration from analogue to digital TV, have seen the business's profitability decline since 2005.

ITV has balanced business risk with a cautious approach to financing and its key financial policy has been to fund long term and covenant-free from the capital markets at least two years ahead of need. It has supplemented this position by maintaining an undrawn £450m syndicated bank facility.

The recession and a sharp rise in its pension scheme deficit saw ITV's credit ratings decline from BBB-/Baa3 in July 2008 to B+/B1 by last September. As the credit crunch tightened, there was an effective hiatus in bond issues by sub-investment grade corporates. And ITV was unwilling to rely on its syndicated bank facility given the risk that it might breach associated financial covenants, which were unlikely to be relaxed in prevailing credit market conditions.

Alongside an aggressive cost-saving programme, ITV ran initiatives during 2009 to strengthen liquidity, extend its debt maturity profile and improve its financial ratios. These initiatives consisted of raising further covenant-free finance without going to the public markets, improving working capital management and selling non-core businesses. The ITV board also confirmed in early 2009 that it could not rule out a rights issue.

In February 2009 the company concluded a £50m net financing deal under a structure with a bank. This provided 10-year covenant-free finance, and was followed up in March with a tap of its existing £325m 2015 bond, raising £58.5m.

Charles van der Welle, ITV's director of treasury, says: "The funds raised from these exercises, combined with existing cash, gave ITV a better negotiating position to approach holders of its €500m 2011 bonds for an exchange offer. It launched this offer in June in improved market conditions, after over six months of planning.

Bondholders were offered an exchange of existing bonds for 30% cash at par [compared with pre-offer market pricing in the low 90s] and 70% into a new issue of five-year bonds.

"ITV's targeted 50% acceptance was achieved, with 54% taking up the offer. These three transactions were key in changing both debt and equity investor sentiment towards ITV's liquidity position and played a part in the share price recovery."

Accompanied by a positive trading update and improved capital market conditions, it enabled ITV to price a £135m seven-year convertible bond in October on attractive terms. The success of the financing and working capital exercises enabled ITV to announce the retention of SDN, a valuable business it had put up for sale earlier in 2009. The company also avoided an expensive and risky rights issue, and its balance sheet ended the year in much better shape than it began. Towards the end of 2009, ITV was in a position to buy back £175m of short-term borrowings from its cash resources. Scheduled debt repayments (post-swaps) through to 2014 now stand at less than £250m, compared with around £700m at the start of 2009.

Kevin Buck, executive director at Fortis Bank, says: "Throughout a long period of turbulence for ITV and the media/broadcasting sector, the treasury team has proactively and innovatively worked to secure the company's liquidity position.

"The team rescheduled debts becoming due for repayment while avoiding restrictive financial covenants, delivering real value and support for the share price when these achievements were announced to the market. They are even more impressive given the backdrop of corporate restructuring with downsizing and reorganisation of support functions."

James Douglas, a corporate finance debt advisory partner at Deloitte, adds: "The bond exchange successfully termed out ITV's debt at a time when primary issuance was extremely challenging. The company incentivised bondholders to participate in an exchange through an innovative structure utilising a modest amount of surplus cash. ITV's proactive management of refinancing risk was well received by the wider debt and equity markets – especially relevant given uncertainty around the timing and extent of recovery in the television advertising market."