ONE OF THE MOST EXCITING AND FASTEST GROWING MEDIA COMPANIES OF THE 1990S, EMAP HAS CONTINUED TO PURSUE AN AMBITIOUS GROWTH STRATEGY. THIS HAS MEANT TAPPING NEW SOURCES OF FUNDING AND ISSUING IN THE DEBT CAPITAL MARKETS FOR THE FIRST TIME. **LIZ SALECKA** REPORTS.

Emap's latest issue

The 'darling' of the media sector in the 1990s, Emap has grown rapidly from its roots as a UK newspaper publisher to a media company made up of four distinct businesses spanning consumer magazines in France and the UK, business publishing and exhibitions, and commercial radio in the UK.

After a difficult time around the turn of the century, Emap's performance has recovered strongly and is reflected in a 9% increase in group turnover to £1,050m, and a 12% increase in group pre-tax profits to £196m for the year ended March 2004. Its four businesses: Emap Consumer Media, Emap Communications, Emap Performance (commercial radio and music magazines) and Emap France accounted for 28%, 28%, 17% and 27% of these profits respectively.

One of Emap's key strengths in recent years has been the diversity of its revenue streams which ensures its resilience to economic downturns. The company is now the second largest consumer magazine publisher in France and the UK, generates 45% of its revenues from magazine sales and derives 7% of revenues from exhibitions – it owns four of the top five UK trade shows; advertising accounts for 44% of its income.

Known as the media company that traditionally adopted a decentralised approach to its business, the last four years have been characterised by a movement towards the centralisation of key infrastructure such as tax, finance, IT and legal services to realise economies of scale. The treasury function, whose main roles are to look after the group's funding needs, manage risk and cash, was also set up to provide a likewise central service to the businesses.

FUNDING STRATEGIES. Since joining Emap seven years ago, Melanie Duke, Director of Treasury, has played a key role in ensuring funds for Emap's growth strategy, which has been characterised by a series of acquisitions and organic growth.

The company has very strong cashflows – around 95% of its operating profits are converted into cash and this has facilitated growth. About 2-2.5% of revenues (£20-25m) are spent every year on new product development, such as new magazines like 'Closer' which required an investment of £14m prior to moving into profitability.

In recent years, the company has also financed growth – particularly acquisitions – through bank loans, rights issues and, as recently as 2003, the debt capital markets.

While traditionally bank facilities were sought to finance acquisitions, the company conducted three rights issues during the 1990s. In 1998, it also issued its first ever syndicated loan to finance a major US acquisition – a move that saw an increase in its banking relationships from just seven banks to 36. This was followed by a

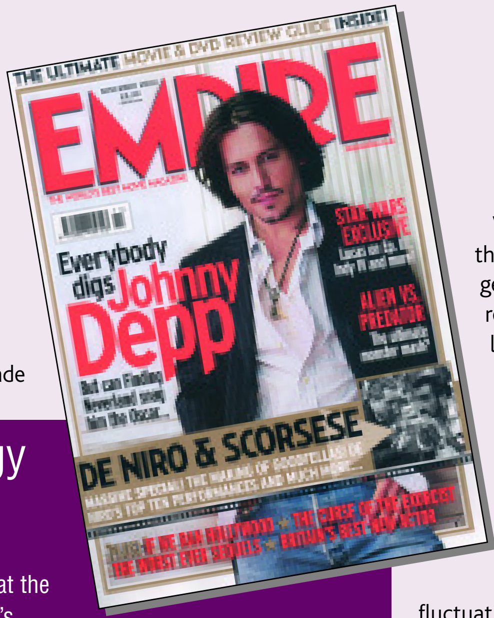
Emap Directory of Treasury: Melanie Duke

Melanie Duke joined Emap to run the media company's treasury function seven years ago. Emap's rapid growth has meant she is now Director of Treasury, responsible for a treasury team of five people and a treasury function managing up to £750m in funding capacity.

"I got into treasury via banking," says Ms Duke who trained as a chartered accountant and then spent five years with Morgan Grenfell's treasury advisory services where she advised corporates on their treasury strategies. "I decided that I would rather be a doer than an adviser – that I wanted to make decisions rather than suggest to people what they should do."

Executive summary

- Emap's treasury function is responsible for ensuring funds for its aggressive growth strategy, which has been characterised by both acquisitions and organic growth. Strong cashflows have facilitated the organic growth.
- Having relied predominantly on bank facilities in the past, the company turned to the debt capital markets in 2003. It published credit ratings for the first time, confirming its status as an investment grade company.
- The company is focused on ensuring a good return on capital and the group's weighted average cost of capital (WACC) is monitored closely.
- IAS 39 represents a major issue for the media company and it is looking to invest in a new TMS solution to meet the standard's effectiveness testing and accounting requirements.



second syndicated loan in 2001 – a refinancing which took disposal of the US acquisition into account. Emap then made its first foray into the debt capital markets in 2003 with a 10-year, £250m eurobond issue. It obtained and published its credit ratings for the first time – a Baa1 rating from Moody's and a BBB rating from Standard & Poor's, confirming its status as an investment grade company.

"At the time, the bank market was very tough so we decided to diversify our sources of funding," says Ms Duke. "Gilt yields were low so the cost of funding in the debt capital markets was very attractive."

This year, Emap has taken advantage of improved market conditions for bank facilities in terms of pricing, tenors and covenants by refinancing the rest of its syndicated facility with a five-year, £500m multi-currency revolving credit facility. The deal did not require underwriting and was self-arranged. Emap now has 11 lending banks, making it easier to build strong relationships.

Ms Duke adds that ensuring the right levels of leverage is crucial to Emap. "We always try to make sure that we have an appropriate capital structure," she says. "We have to make sure that our credit rating is high enough to provide us with ready access to the debt capital markets at a reasonable price and covenants. But we don't want to have a rating that is set at such a high level that it unduly limits our operational flexibility in terms of making acquisitions or launching new products."

Emap monitors the debt markets closely to ensure the most effective source of funding. "The funding we use will depend largely on the scale of the M&A opportunities," says Ms Duke. "When we raised funding in the bond markets, we looked at which market could provide the maturity, scale of borrowings, investor demand and pricing that we needed, as well as how onerous documentation requirements are. We raised funds in sterling and swapped a significant proportion of the proceeds into euros."

MANAGING EURO RISKS. Risk management is another key activity for Emap's treasury function. Here, the principle translation risk is against the euro – meeting repayments on the company's euro-denominated debt and the euro-denominated value and profits of its French operating company. Emap's policy is to match as much of the cash outflows on its euro-denominated debt as possible to the cash inflows from Emap France, which accounts for 27% of group profits.

New technology for IAS 39

Compliance with IAS 39 is at the top of the agenda for Emap's treasury function.

In the first instance, Emap has created synthetic euro debt by swapping its sterling bond into euros using rolling FX swaps. The treasury operation's policy of hedging the resulting euro interest rate exposure using interest rate swaps does not qualify for hedge accounting treatment under IAS 39. This means that the company either has to change its hedging strategy or take the volatility in its profit and loss account.

At the same time, the company recognises that it must invest in a new Treasury Management System (TMS) to meet IAS 39's effectiveness testing and accounting requirements.

"IAS 39 compliance is not straightforward – it needs resources and time," points out Melanie Duke, adding that the reporting requirements of IAS 32 – such as disclosure for derivatives – will also prove highly labour-intensive to satisfy.

Emap's investment in an integra-T TMS solution a few years ago provided the company with additional functionality such as the segregation of duties, accounting capabilities and automation of confirmation matching with Crossmar, but is now close to the end of its lifespan. The three options for the future include: upgrading the exisiting Integra-T solution to integra-T.com, investment in a new supplier's IAS 39 complaint solution or outsourcing its treasury requirements. Emap is also looking at the web-based services offered by banks to assist with IAS 39 compliance.

"We have a March year-end and, therefore, have three months longer than many other treasuries to achieve compliance," says Ms Duke. "We may need some interim solution – and, in the short-term, may use spreadsheets in addition to our TMS. But this will be too manual a process and prone to error and is not a long-term solution."

With most of its costs in the same countries that it generates business revenues, Emap faces limited transaction exposures, the only significant one being to UK businesses' purchases of paper from European suppliers. Here, the company manages exposure to adverse currency fluctuations by purchasing paper for use in the UK in sterling, and letting its suppliers price this risk into their charges. The competitive paper market ensures that payment for this risk is priced appropriately.

The treasury department has looked at the potential use of commodity derivatives to hedge the risk of potential increases in the cost of paper, but found the market too under-developed. Emap manages this price risk by agreeing fixed price contracts with its suppliers

SHARING RESPONSIBILITY FOR CASH MANAGEMENT. With strong company cashflows used to finance organic growth and pay down debt early, Emap has limited need for the short-medium term investment of cash surpluses. Although a high proportion of Emap's operating profits convert into cash, cash management is still imperative.

The company has taken enormous strides forwards in its cash management practices by setting up a Shared Service Centre in Peterborough in 2002 as part of its movement towards the provision of centralised services. The SSC is now responsible for managing payables and receivables and handling bank reconciliations, on behalf of the UK businesses.

"The SSC has enabled us to take significant steps forward," says Ms Duke. "Before, many of our businesses in the UK were dealing with their own cash and it was hard for us to get this to the top of their agendas. Since the SSC has been created we have conducted tenders for clearing and merchant services in the UK, and company credit cards will follow shortly. We now meet best practice across the board."

The cashflows of EMAP France are managed by an SSC in the country. Every day the two centres transfer euros or sterling across to each other as required to consolidate their positions.