

BUSINESS IS BREWING

Brewery and pub business Marston's is fortunate in its dynamic treasury team led by Rob Leach. And it does the cause of treasury and cash management no harm that CEO Ralph Findlay is a former treasurer and a strong advocate of the team

Words: **Liz Loxton**

Photography: **Rob Whitrow**





Marston's, based in Wolverhampton in the Midlands, is a pub and brewery business moving at a rapid clip. With 25 pub openings signed and delivered over the course of 2015, the business has committed to at least 20 for 2016 – which adds up to a huge organic growth strategy and an investment close to £140m for the year.

Clearly, this kind of growth trajectory brings a hefty capex requirement and, fortunately, Marston's benefits from a strong treasury team, led by head of treasury Rob Leach, plus an advocate for the treasury discipline in CEO Ralph Findlay, himself a former treasurer at Bass Brewery and an ACT member.

Marston's, as it is today, emerged out of what was formerly the Wolverhampton and Dudley Breweries. The business adopted the name Marston's in 2007 because, having spent a decade acquiring pub and brewery businesses from across the UK, it needed a name that reflected its nationwide aspirations.

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Marston's network of pub-restaurants are typically freehold and the majority are new-builds – big, stand-alone family-oriented environments. It's a very specific strategy and a demanding one.

"We've got a team of property people out there acquiring sites. It's a very specialised business to be in; but we've got control and we've got visibility two or three years out on where our growth is coming from," says Findlay.

"By the time we've completed the investment, we will have spent about £3m on each individual pub. As a strategy, what that means is that we are building our own growth," he says.

Solid foundations

Such a consistent call on capital can't be achieved without great financial management and funding discipline. The business needs the right amount at the right time – no small order for a cash-generative, but seasonal business.

"We don't want to lose those opportunities when we see them come along," says Leach. "So it's hugely important that our cash forecasting is accurate and working capital is managed effectively, so we can help the business with its strategy. We don't want to hit problematic pinch points where we have to say no."

The value of property on Marston's balance sheet is in the order of £2bn. Around £900m of that is funded through a securitisation programme, initiated in 2005. "We have also approximately £200m in structured finance – long-term leases where the freehold reverts back to Marston's at the

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end of the term. And we are a business with significant cash-flow and working capital requirements," says Findlay.

The securitisation is fixed interest and amortises out in 2035. It has to be monitored and administered, particularly covenants. The structured finance element, however, is, unusually for the pub world, pension-fund-backed. "When we build one of these pubs, we go to UK pension funds, who are looking for yield; it's a yield-hungry market. We agree, typically, 35- to 40-year money, and it's structured as if it were a lease, but there's an option for us to take the freehold back at the end of that lease at effectively nil cost," says Findlay. "So it remains on balance sheet and we retain the freehold interest, but what we're aiming at is attractive long-term financing. In comparison to the securitisation structure, what we've got is something that has no reporting requirement, no covenant test, no administrative burden and complete substitution on assets."

Marston's treasury team is eight-strong – small perhaps for a business with a £950m market cap, but efficient and fit for purpose. "Our turnover has increased more than 40% over the past 10 years, but that team has got smaller as processes have become more streamlined," says Leach. "There is less physical cash now. A lot of the job used to be counting cash. Twenty years ago, we used to take more physical cash than the local Barclays Bank."

And although the treasury team and Marston's in general has many long-stayers, Leach says the environment is a dynamic one. Team members learn each other's roles to facilitate job-sharing and between them cover off interest and debt forecasting, working capital and loan management, money market deposits, invoice financing and banking relationships. The capex requirements mean there is a need for intricate cash forecasting. The team tries to identify every payment as far out as possible, Leach says, partly to educate other parts of the business on the importance of cash visibility.

Automated systems take out a lot of iterative tasks, but it's the unforeseen that team members are there to cover off. "They're very skilled at identifying what it is that might have



gone wrong. It's a very dynamic environment. You can't really plan day to day."

Treasury virtues

It also falls to Leach's treasury team to manage significant swings in working capital over the year. In the pub trade, takings still mostly come in towards the end of the month, so pubs and pub businesses see a spike each month as customers spend their pay packets. But month to month, takings can be highly variable, and as Marston's manages its own pubs, it's the treasury function that takes ownership of that issue.

"Within our first half-year, October through to March, December is a good month, and March is reasonable, too, but there are four months there that are probably the worst four months of the year in terms of cash flow. We have to manage through that. We've got our close relationships with the banks to help us through those times," he says.

With 90% of profits coming from the pub business and the remainder from the brewing business, the significance of that seasonality has to be shared knowledge across the business. Leach made a presentation to the divisional boards just before Christmas on how the business can manage that working capital swing.

The Christmas boom hits the brewing side of the business, too. Marston's holds around 20% of the UK's bottled ale market and 20% of the UK's premium cash beer market, says Findlay. "So ahead of a huge trading event like Christmas, our stocks of working capital have to build up. Last year, we had to spend £4m building a new warehouse in Burton upon Trent just to handle the amount of stock we were required to send into the supermarkets at the back end of the year. So it was

RALPH'S CV

2001-present > CEO, Marston's
1994-2001 > Finance director, Wolverhampton and Dudley Breweries
1992-1994 > Group chief accountant, Geest
1990-1992 > Treasury manager, Bass
1988-1990 > Chartered accountant, PwC
Qualifications:
MCT (1992)



ROB'S CV

2009-present > Head of treasury, Marston's
2006-2009 > Head of payroll, ledgers & treasury processing, Marston's
2001-2006 > Group management Accountant, Marston's
1998-2001 > Management accountant, pubs division, Marston's
1994-1998 > Management accountant, Lyreco UK
1992-1994 > Local government auditor, Audit Commission
Qualifications > AMCT (2015)





really helpful and informative to our businesses to hear Rob explain how all of that affects our cash flow."

It's knowledge that is more effective when shared. "Because we are pretty efficient in the treasury team and we are able to provide the capital when required, I think people forget that we do, as a business, have debt and we have to manage it. We have to manage day-to-day working capital requirements and we have to draw on our bank loans, which is what we use on a daily basis. If everyone can do their bit, that can only help," says Leach.

The greater the knowledge and expertise within treasury, the better informed and cash-literate the business as a whole becomes. Both Findlay and Leach see an important communication role for treasury within Marston's. "The range of areas that the treasury team is involved in has steadily become wider and the issues they deal with have steadily become more complex," says Findlay. "I have always thought the treasury qualification is a really useful one. We are a cash business; most of our customers are spending money in cash. To me, the treasury qualification has always been something that has helped us understand those things in a much more effective way. And I've also thought it's a really good way of differentiating yourself in a career sense."

Findlay counts himself as fortunate to work in a business focused on people enjoying themselves and having fun. It's also highly dynamic. "It's a sector that has changed a lot and continues to change very fast," he says. "The competitive environment is constantly developing. For us, to be able to make Marston's the place to be for our customers is something that we're fortunate to be able to do." ♦

Liz Loxton is editor of *The Treasurer*

ROB'S TOP TIPS FOR SUCCESS

Don't be insular within your business. Take the opportunity to talk to as many people from other functions as possible and encourage your team to interact in a similar fashion.

Continually analyse your daily processes and look to identify those that may be inefficient and can be improved. We have a fantastic IT team that has automated most of our interfaces and download programs. The more you streamline your processes, the more time you have for value-adding activities, such as forecasting and working cap management.

Invest time in your banking relationships and you will reap the rewards. If your banks understand your

My favourite gadget is my iPad. I am a massive sport and news junkie, so I always like to be up to date with what is currently happening in the world (I also like to play *Clash of Clans* while my wife is watching television).

The secret to career success depends on how you define success. One thing that has always stood me in good stead is to treat everyone with the same amount of respect and courtesy, no matter what job they do in the business. After all, we are all working towards a common goal.

Surround yourself with great people. We have a wide mixture of experience and skill sets in our treasury team, but they continually

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corporate strategy and how your business ticks, it becomes a lot easier to work together and for them to provide timely solutions when you need help.

With regards to the AMCT qualification, I am very familiar with the Marston's world of treasury, but the AMCT qualification has given me a much broader viewpoint on treasury than I realised existed. It's filled many holes in my knowledge and provided me with new ideas that I want to develop further.

amaze me with their 'can-do' attitude and their ability to problem-solve under pressure.

The most difficult question my FD is most likely to ask: when will Liverpool win the Premier League? (He is a big Reds fan.)

The best way to wind down after a stressful day is a meal out (at a Marston's pub, of course!) with my wife and children, or a game of five-a-side football with my friends.