



A JOB WELL DONE

Making the operation more efficient, negotiating successive rounds of acquisition funding and seeing people grow in their profession bring Rando Bruns, head of group treasury at Merck, considerable satisfaction

Words: **Liz Loxton** / Photography: **Louise Haywood-Schiefer**

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➤ A career in finance was always on the cards for Rando Bruns, head of group treasury of pharmaceutical and life science and technology group Merck. “From a young age, I wanted to work with money; I wanted to work in a bank,” he says. “It was less about wanting to be a policeman or a fireman for me.”

Bruns took the swiftest route available, leaving school for an apprenticeship at Oldenburgische Landesbank in Westerstede, Germany. He embarked on a BA in European Finance and Accounting, studied jointly in the UK and Germany in 1991, and enrolled on an MBA as a Fulbright Scholar at Kent State University in the US in 1995, and came to realise that he wanted to explore finance from the corporate side.

Bruns joined General Motors’ Opel, in Rüsselsheim, as a financial analyst and then became team leader in treasury. After three years, he moved to Elexis, a specialist machining company where he was head of finance and investor relations. Two years later, he moved to a Munich subsidiary where he was general finance manager. It proved to be a testing environment, with orders falling sharply post September 11. “It was very tough,” he says. “We didn’t know if the company would make it. One of my first jobs was to lay off 15% of the workforce, which was one of the toughest days in my career. Money was short and every week I had to call the vendors to negotiate how much we could pay.”

The company returned to profit, but by 2005, Bruns wanted to bring to an end his

weekly commute to and from his home in Frankfurt. He joined Merck as head of cash and risk management, and became group treasurer in 2008.

It was the beginning of a period of significant change for the company. Merck’s treasury employed only eight individuals at the time. Today, it stands at 40 and encompasses insurance management and pension asset management for the group, as well as acquisition financing. Merck’s growth story was just about to begin. Treasury and Bruns would play a pivotal role.

Family involvement

Merck’s structure is unusual in that it is public and private at the same time. Thirty per cent of the shares are held by the public, while the Merck family retains a 70% holding. This gives it a considerable personal stake and liability, but affords the company a certain flexibility. While quarterly results are important for investor relations, the family is also committed to handing its heritage on to the next generation. Furthermore, the family is personally liable, which also applies to the board of external managers.

“With the family there, you can be very fast moving. They are not actively steering the company – that is done by the board, but they are involved in strategic decision-making. If you need some sort of permission, this can be reached within hours, if need be.”

With nearly 350 years of heritage, Merck is a business of long-stayers. Very

few trainees leave the company, which has also grown significantly by acquisition. “We have bought businesses for more than €30bn and sold businesses for more than €8bn. So there has been a change in culture over the past 10 years.”

Most of Merck’s acquisitions have been US and Asian businesses, and have cumulatively made the company more internationally focused. “We deal with 66 countries on a day-to-day basis. We try to make the workforce international and diverse,” says Bruns.

The starting transaction was the 2006 deal to buy Swiss biotech company Serono, a €10bn, biotech-pharma link that was very important strategically. The 2010 purchase of Millipore for \$7.2bn in particular expanded Merck’s life sciences interests, and the \$2.6bn acquisition of AZ Electronic Materials, listed in the UK, but with main businesses across Asia, also broadened Merck’s footprint.

The completion of Merck’s purchase of Sigma-Aldrich last year was significant for group treasury. In contrast to the Serono deal, where the family diluted its shareholding slightly in the interests of raising public funds, the Sigma-Aldrich acquisition, all \$17bn of it, was cash and debt financed. The role that Merck’s treasury team played bringing the transaction about and managing its banks brought accolades, including European Treasury Team of the Year in *The Treasurer’s Deals of the Year Awards* last year.

The acquisition financing was at the time the largest in Europe since the ➤

financial crisis. A \$15.6bn dual-currency loan facility was secured in September 2014 and was followed by a €1.5bn hybrid bond in December 2014 and a \$4bn US bond in March 2015.

“The debt market plays a very important role for us and, therefore, treasury financing plays a very important role,” explains Bruns. Treasury was involved in strategic decisions at a very early stage, leading discussions on the affordability of the deal and the implications for ratings.

Banks and their role

One of Bruns’ ambitions for the financing was to strengthen relationships with Merck’s 19 banks, but the direction he decided on was a singular one. Rather than allowing banks free rein to call team members and pitch for a stake in the Sigma-Aldrich transaction, Merck ran the show from the off. “Every relationship bank wants a piece of the cake and we were very strict on this. We had a strategy as to which bank we’d have, which position and what earnings, and there was no room for discussion.”

Once the deal was public knowledge, Bruns made it clear that banks ignoring the ‘no calls’ rule might end up on a black list. In return, he offered fair and transparent treatment. Every bank fell

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in line. The feedback he received was that, although this approach had been difficult to swallow at the beginning, it had been easy for bankers to sell internally, because Merck was transparent and as good as its word on outcomes. “We want banks that want a long-term relationship and while you are tough on pricing, you have to be fair, so this worked really well,” he says.

The FX management of the transaction is also an area he is proud of. Being involved in the strategic discussions, Bruns understood that Merck would soon be in the market for an acquisition using dollars rather than euros, so two years prior to the Sigma deal, he began discussions on setting up a funding vehicle that reported in US dollars. Merck established an in-house bank in the US to accumulate currency, increasing equity and converting euros into dollars.

“That was the first step. If the acquisition hadn’t happened, that wouldn’t matter; we just had US dollar cash in a US dollar entity, which we could live with for a certain period of time.”

At that time the US dollar was well above \$1.30 to the euro and Bruns’ view

was that the euro would weaken and the dollar become stronger. “There was a point when we had an agreement [to purchase Sigma], which was friendly. We had an agreement on price and on some other aspects of the deal already. But we would need to finalise on technical areas. And at that point we could see the USD/EUR exchange rate moving further down and we said ‘we have to do something; we will lose a lot of money if we don’t’.

“We were hedging our remaining US dollar exposure at that point. As we had already considerable US dollar cash available and already decided to do some US dollar funding, we went out into the market and bought plain vanilla USD/EUR options for our remaining FX exposure of \$10bn – and we did so with the expectation we would sign within the next few weeks, at which point we would sell the option and go straight into a forward.”

Merck did not take the cheapest option, however. “We bought a one-year option because we wanted to lose as little in option time value as possible, to look for an efficient way. So we spent €100m on option premiums. This is quite some investment. You need



RANDO'S TOP TIPS FOR SUCCESS

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“Think about what you can bring to the table to move the company forward as well as to improve the life of your colleagues in different functions of the organisation. Have a holistic view of the company and do not be only treasury-focused.”

◆
“You do not learn treasury at university; it’s learning by doing. The professional qualifications, like those from the ACT, help, but they are mostly for people who are already in the profession. I have made very good experience with our own specialised two-year treasury trainee programme as a starting point.”

◆
“What I like about the ACT is that it has built a platform for networking and communication. It’s more international than any other treasury organisation, so for me it’s an opportunity to meet treasurers and peers from the UK and other countries. Networking is very important in today’s world.”

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“For me personally, the secret to career success is that I am in a profession that truly matches my personal interests. I enjoy building a team with which high goals can be achieved. It is also a pleasure for me to develop, challenge and assist colleagues in their professional growth.”

confidence and back-up from the board and Merck family to do that. Three weeks later, we sold it for €200m, so the strategy paid off. Then we moved into the forward and managed this towards the end. Overall, we applied a hedging strategy according to the deal probability – and we did this very consciously. The overall benefit was more than €2.1bn. Our average hedging rate was above \$1.30.” When Merck completed the acquisition a year later, the dollar had indeed strengthened substantially; by then the rate was close to \$1.10.

Post-deal integration

With considerable deal experience, Merck has been able to hone its post-transaction approach. Bruns understands the importance of grasping the nettle early. Once the deal is signed, the company begins negotiations with anti-trust lawyers on the scope of discussions with the other company’s treasury function. Many companies begin the integration process once the deal is closed or shortly after. “We have a different approach; we want to be done on the day of closing,” says Bruns. “We sit with the anti-trust lawyers of both parties in order to prepare integration very early and say: we will talk about treasury; we don’t talk about customers, products, prices, vendors – nothing that would give us a competitive advantage if the deal doesn’t go through.”

Bruns also believes in early discussions with IT to ensure both parties connect successfully on completion and early involvement of the bank in order to be ready for day one. “Cash pooling should go live with closing. In order to achieve

this you need to set up bank accounts for [businesses that are] not already in your group. You maybe want to make penny payments and start testing, which is difficult for them and you typically get rebuffed, two or three times, but I can tell you it’s feasible,” he says.

Looking ahead

Facilitating Merck’s growth has to coexist with the day-to-day tasks, of course – such as managing FX risk and keeping a watchful eye on governance issues. The team is also implementing a completely wide-ranging new IT set-up for treasury, triggered by Siemens, which is withdrawing its cash management system finavigate from the market.

Similarly, regulatory issues must be faced up to – Section 365 regulation in the US, the Money Laundering Act, the Financial Transaction Tax.

Risk management and political risks are more open questions. Merck hedged against falls in sterling ahead of the Brexit vote, but with most of its business outside of the euro, the weaker pound and weaker euro have been unproblematic. It’s the wider implications of the EU that will exercise Merck. “Overall, we’ve benefited from the FX exposure. I think, as a company, this might impact us in terms of regulation. What will it mean when you want to license a product, for instance?”

The outcome of the US election and wider political risk are harder to call, however. “It’s another loose bullet,” he says. “In risk management you discuss what could be and what is the next ‘maybe’. The big things, you don’t see. The shark that bites you comes from underneath. We have a very bumpy and volatile road ahead of us, I’m sure of that.”

Team spirit

In the meantime, the team’s capabilities and role in Merck’s development bring him a great deal of satisfaction. “Firstly, enabling the growth of the company – to support this and to help the business with efficient processes – that’s where the satisfaction lies. Secondly, the teamwork: I think we’re as good as we are because we’re a very good team. Each individual in the team is there when they are needed and goes beyond their tasks by going the extra mile, as well as working jointly with and for each other. We’re a diverse team. You need a completely different skill set for all the different tasks – and that makes us rich, I would say.”



RANDO’S CV

2005-present

Head of group treasury, Merck (head of cash and risk management until 2008)

2000-2005

Head of finance at an Exelis subsidiary (head of finance and investor relations at Exelis AG Frankfurt until 2002)

1997-2000

Head of cash and risk management at Opel (financial analyst until 1998)

1986-1996

Banking roles in Germany and the US



QUALIFICATIONS

1995-1996

MBA from Kent State University

1991-1994

BA in European Finance and Accounting from Bremen University and Leeds Metropolitan University

1988-1990

Higher Examination in Banking

1984-1986

Examination in Banking

Liz Loxton is editor of *The Treasurer*

VITAL STATISTICS

1668

year of foundation

50,000

employees worldwide

€12.8bn

revenues in 2015

66

number of countries in which Merck operates

€1.7bn

R&D spend in 2015