FINANCE DUBLIN

SPECIAL REPORT OCTOBER 2012

CORPORATE BANKING IRELAND 2012

INSIDE:

- The 'go-to' banking products and services identified
- Leading corporate banking provider profiles
- Capital markets opportunities for Irish companies
- How to create a 'cash culture'

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Photographs (this page): two of Ireland's corporate funding dealmakers: Top left: Michael O'Leary, whose Ryanair has just pulled off a $190 million notes deal at an all-in financing cost of 1.74 p.c. and (top right), Paddy Power Plc's CEO Patrick Kennedy, whose company has shown stellar returns on the Irish Stock Exchange.

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Ideas and strategies for secure company finance

THE 'new normal' of restricted bank credit means that companies everywhere, and particularly in jurisdictions with distressed sovereigns (such as Ireland), are facing unprecedented funding, or, more starkly put, liquidity challenges.

Corporate Banking Ireland 2012 examines the options available to Irish companies, covering internal sources of liquidity, the full gamut of credit, including 'outside the box' sources, such as vendor finance, trade credit, or, indeed, a new cash culture in corporate treasury that 'evangelises the time value of money' (to quote a contributor to our report).

The main core of the report however concerns the options open under the heading of the various forms of bank credit, featuring the analysis of leading figures from leading business banks in Ireland, in HSBC, Bank of Ireland and National Irish Bank- Danske, which outline the main options available, and their realistic practicability for different types of Irish company. Bonds and equity finance are the natural alternative to internal and organic sources and credit, and, IPOs, private equity, and, (a major area of interest particularly for larger companies), the rated and unrated bond markets, which offer interesting options for those with the capability to follow that route as part of a balanced strategy.

A balanced, individually tailored, no-nonsense funding strategy needs to be in place in every Irish company, large and small, as we go into 2013, and this report provides a veritable treasure chest of ideas to help inform it.

Corporate Banking Ireland 2012

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Seeking the best in class banking solutions for Irish corporates

This Special Report by *Finance Dublin* provides a comprehensive assessment of the options for corporate funding, covering loans, other forms of credit, such as vendor and receivables finance, to securities issuance, to public equity, private placement, and bond issuance, both rated and unrated. The report also covers internal sources of cash and, importantly in present times, liquidity.

Bank finance continues to play an important role while capital markets also offer important funding options

In this roundtable discussion with three of the leading figures in banking in Ireland we ask leading bankers. Bank of Ireland's Pat Gaynor, National Irish Bank/Danske's Mark Caron and HSBC's Alan Duffy for their thoughts on the corporate banking services landscape. They identify strategies, products and services that can suggest solutions.

What do you think will be the most important sources of finance for mid-sized firms over the next 2 years?

Pat Gaynor, managing director, Bank of Ireland Corporate Banking Ireland & UK:

The answer to this question really depends on what stage in its life cycle the mid-sized firm is. If a company has a good track record and a sustainable cashflow in terms of EBITDA (Earnings Before Interest Tax, Depreciation and Amortisation), then it can leverage up on that cashflow through bank debt, be it by way of overdraft, invoice finance or term debt or a combination of these.

Pat Gaynor

Equity can form part of the funding structure if required for such companies (or can fund on its own for others) and this is available through the various venture capital houses or indeed the IPO route. Innovative businesses may also attract equity from new funds in the market such as the National Pension Reserve Fund supported SME Equity Fund or the proposed Development Capital Funds supported by Bank of Ireland among others.

Notwithstanding today's continued challenging times, good businesses with good management teams and a good market or sector position can still attract funding from one or more sources.

Alan Duffy, managing director and Ireland head at HSBC Corporate Banking:

Those with strong relationship banks will continue to be able to access traditional revolving credit, working capital and/or term loan facilities. Receivables financing is increasing in popularity and will remain a viable financing option. There always exists the PP or unrated bond markets too.

Marc Caron, head of client advisory, National Irish Bank:

Banks will remain highly important for this sector as a source of funding. While larger firms are likely to issue in the international bond markets in ever increasing numbers, this is unlikely to be an option for many of the mid-sized companies. However, the new capital rules will mean that it will be more expensive for banks to lend to these companies so some of the larger companies in this sector will also look to the capital markets. It's unclear where the equilibrium will be, but the net result is that these companies will need to be even more focused on managing their funding needs.

Are we seeing a rebirth of interest by overseas venture capital firms in Irish companies?

Gaynor:

There has always been a degree of interest by overseas venture capital firms in Irish companies but this has typically been at the larger end of the market with limited appetite for medium sized opportunities. Historically, this space has essentially been serviced by the domestic players such as the Bank of Ireland Kernel Funds, NCB Venture Capital, Delta, TVC etc and this remains the case. With the arrival, however, of initiatives such as The Enterprise Ireland/NPRF Innovation Funds, the attention of international VCs has been attracted with three players - DJ F Esprit, Sofinnova and Polaris already on board and three more to come. In addition the arrival of Silicon Valley Bank (exact offering as yet unknown) is an indication of interest in Ireland as a hub for innovative and fast growing companies with strong growth potential particularly on the international stage.

All of this activity bodes well for the future.

"Those with strong relationship banks will continue to be able to access traditional revolving credit, working capital and/or term loan facilities."

Duffy:

Certainly some sectors such as medical devices, renewables and some food ingredients Irish companies are attracting overseas interest.

Do you think that issuing corporate bonds will ever be a realistic option for mid-sized Irish companies? Will this market develop over the next five years in a similar manner to Germany's?

Gaynor:

I have to confess that I don't believe this will happen in the short to medium term.

The corporate bond market both on an Irish and indeed international scale is typically only open to the larger rated entities and it's hard to see where the investor base for mid sized Irish businesses would emerge from. As a pre-requisite to this developing, I think that a lot more mid sized businesses will need to go the IPO route so that there is a critical mass of companies and investors in this mid space and a track record established of such companies living in the 'traded world'. However, one bond type option that may be open to the larger end of the mid-sized world is the US Private Debt Placement market which a small number of non quoted Irish companies have successfully tapped over the years in addition to the many quoted ones.

"In general we see Irish corporates maintaining relatively prudent balance sheets. There has also been an improvement in how they manage the cash resources in their companies."

Duffy:

It has been touted for a while now.

If you look at the US model more funds are raised in the bond markets than traditional bank lending. It depends to a degree on the sophistication of the Finance Function which the company has. The PP market is worthwhile exploring as you can get long tenor and a wide investor base. Its relatively low maintenance.

Caron:

It is a major challenge, but there is no fundamental reason why it should not develop. We have seen a buoyant domestic market develop in some of the Nordic countries as well, partially due to both issuers and investors wishing to avoid currency exposure but partially due to the resources that the investors have directed towards understanding these types of credits.

Marc Caron

Do many of the applications for finance you see from Irish companies seek a level of debt that is not prudent?

Gaynor:

It's hard to generalise on this question but this can happen quite often and particularly where the company hasn't an equity raising option open to it to run alongside debt or is reluctant to go this route. Bank of Ireland is genuinely looking for new business and new customers but debt levels need to be appropriate for the size and nature of the business. Growing businesses sometimes are aware of the quantum of funding they need but often confuse the equity and debt element and again that is where Bank of Ireland can help with ideas.

Duffy:

In a nutshell, no. finance directors and CFOs for Irish mid to large size corporates are prudent and focused on maintaining a healthy balance sheet. Boards are very much in this mindset too.

"One bond type option that may be open to the larger end of the mid-sized world is the US Private Debt Placement market which a small number of non quoted Irish companies have successfully tapped over the years in addition to the many quoted ones."

Caron:

In general we see Irish corporates maintaining relatively prudent balance sheets. There has also been an improvement in how they manage the cash resources in their companies, in terms of working capital and cash management, which has reduced their funding requirements somewhat.

What do you look for in a company seeking finance?

Gaynor:

Now that's a question that we could write a whole article on! In summary, it's about the obvious things - there needs to be a strong and balanced management team with the appropriate mix of skills and experience, the business needs to have a good and clear offering with a good defendable market position, diversified in nature (be it products/services, customers, geographical markets and preferably all three) and a good track record. The composition of the board and the shareholder base can also be important.

A key element at the outset is that the company has a comprehensive business plan incorporating all of these elements of their story, their plans for the future and the numbers around these including detailed financial projections and the assumptions and sensitivities around these.

Alan Duffy

Duffy:

Experienced management, a cohesive/robust business plan with prudent sensitivity analysis built in, steady cashflow, established track record through the cycles.

It can be done: Ryanair's 'outside the box' example of recent Irish funding success

LAST month Ryanair closed one of the most attractive bond deals in the global aviation industry's history, let alone that of Irish companies. The sale by Ryanair of over $190 million in "Prefunded Notes" backed by the US Export-Import Bank on September 6th, sold for 1.741 per cent. These notes, a new device developed by Ex-Im are backed by the guarantee of Ex-Im, effectively a US Government body, enabling the issuer to fund itself at the same rate as the USA itself. The notes, due in 2024, will fund 7 Boeing 737s and was the lowest spread for a bond guaranteed by the Export-Import Bank of the United States ever - a recognition also of the Irish firm's rating in bond markets. The transaction was over three times oversubscribed.

The Ex-Im bank began backing bonds issued by airlines to refinance loans when the dislocation in credit markets in the financial crisis meant many airlines were unable to refinance. In May of this year, Ex-Im went a step further, allowing airlines to raise finance for planes directly from the market through Ex-Im guaranteed bonds. The bonds are described as 'pre-funded' as airlines can sell them before they take delivery of aircraft.

Could Ireland develop a corporate bond market, like Germany and some Nordic countries?

The sovereign-dominated history of the Irish bond market is charted by FERGAL O'LEARY, co-founder of Glas Securities, a bond market specialist adviser, as both the State, and more recently ESB, have returned to the markets. With the downside risks of investing in equities and property now better understood by Irish retail investors, a corporate bond investor base for Irish issuance could conceivably emerge as investors look for alternatives.

Prior to July this year, the overall Irish bond market has seen limited new issuance of any substance since the country entered the EU/IMF aid programme in November 2010.

The National Treasury Management Agency's (NTMA's) funding on behalf of the state in July amounted to €4.2 billion of net inflows to the country at an average rate below 6 per cent for an average term of 6 years. This was followed in August by the issuance of €1 billion of longer dated amortising bonds at an average rate of 5.91 per cent. Irish Government borrowing from bond investors peaked in 2009 when the country borrowed circa €33 billion. There has been no material public issuance from Irish financials since 2010 and limited public issuance from Irish corporates also.

Historically, Irish financials have largely dominated corporate non-government issuance in Ireland. Irish banks and insurance companies have borrowed via senior unsecured bonds, subordinated bonds and covered bond issuance. Securitisation of residential mortgages, commercial mortgages and leveraged loans also formed part of the funding platforms for Irish banks before the on-going economic and financial crisis began. As historical wholesale funding has reduced or matured, it has largely been replaced by government guaranteed senior unsecured issuance and increased borrowing from the ECB. Following liability management exercises, future issuance via subordinated bond issuance or securitisation would appear to be unlikely and the most probable form of borrowing may take the form of covered bond issuance, which are all currently rated investment grade.

Semi-state companies such as ESB, Bord Gais, Aer Rianta all tapped international bond markets prior to the country entering the EU IMF Programme. Last month, the ESB returned to the corporate bond market to successfully issue €600m 5 year bonds at a rate of 6.25% which also carried a one-off coupon step-up of 125bps in the event the company's ratings fall below investment grade over the life of the bond. The bond attracted strong investor demand and was oversubscribed to the tune of 4 times the number of bonds on offer.

Fergal O'Leary

Irish corporates have historically used debt financing from the bond market in conjunction with borrowing via both domestic and international bank loans. With banks' own cost of funding increasing substantially over recent years, borrowing from bond investors looks more attractive economically and could offer more attractive longer term financing than that currently available to corporates from direct bank borrowing. It is worth highlighting that most banks continue to deleverage in a bid to reduce loan to deposit ratios to more manageable levels.

> **"With banks own cost of funding increasing substantially over recent years, borrowing from bond investors looks more attractive economically and could offer more attractive longer term financing than that currently available to corporates from direct bank borrowing."**

High profile corporates such as CRH, eircom, Smurfit Kappa have been able to access bond market financing in the past decade. This has not been the case for smaller, less well-known issuers who have been unable to access this source of funding due to a number of factors such as the relatively low level of retail domestic investors in Ireland; prohibitive cost of ratings; lack of focus from international investment banks to date; lack of transparent pricing platform.

Rating agencies have a very important role to play in international bond markets as they are mostly perceived as being an independent verification of any issuer's ability to repay its debts in a timely fashion. While most investors' reliance on ratings assigned by the main agencies has reduced in recent years, a corporate without a rating would find it virtually impossible to raise financing from the bond market at reasonable levels in the current environment. S&P and Fitch both assign BBB+ Negative Outlook to the Irish sovereign. Moody's currently rates the Irish sovereign Ba1 and assign a Negative outlook to the rating also. Last month, Moody's lowered the local and foreign currency bond and deposit rating ceiling for Ireland from Aaa to A3. This means that no domestic issuer or any structure backed by Irish receivables can achieve a rating above this level. In the short term, this is unlikely to have a significant impact but in the next few years if Ireland's ratings start to recover, a break above that ceiling may be difficult to achieve.

In the aftermath of the financial crisis where sovereign and bank default risk has increased considerably, investor appetite for corporate risk has increased. In addition, the current low interest rate environment, with negative yields in short dated maturities of core European countries, is forcing investors to seek alternative investment strategies in an effort to achieve required returns.

Corporate bond markets in some other European countries such as Germany have the benefit of a large retail investor base who have a long history of investing in the corporate bond market as opposed to equities, property or other cash alternatives.

Ireland does not historically have a similar investor dynamic where the lure of potential equity and property investment returns has historically overshadowed the potential returns of corporate bonds. Perhaps with the downside risks being better understood for equities and property over the last few years, corporate bonds may become more popular in the future.

Fergal O'Leary is co-founder of Glas Securities.

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Corporates have a wide variety of different sources of debt financing available

HSBC's Alan Duffy looks at the current state of the corporate financing market and the wide variety of financing structures available to corporates looking to service debt and manage their finances.

The seismic changes which have taken place in global financial markets since 2008 have resulted in a sea-change in how lenders are engaging with their clients and originate new transactions. By the same token, corporate clients are operating in a dramatically different space and those who have survived are thinking 'outside the box' when it comes to servicing debt and managing finance.

In addition to macro-economic instability, the eurozone crisis and regulatory pressures among other factors, the demand for credit and finance has meant that many corporate borrowers now place great stock in relationships developed with lenders when doing business. Established and tangible track-records are viewed more than ever as pivotal as the global economy drags itself from the gutter and sets about re-inventing itself.

Overall, net lending continues to be negative reflecting ongoing bank deleveraging and expansionary capital expenditure. Boardroom confidence continues to be relatively low although there is recent evidence of some confidence emerging on the mergers and acquisitions front, albeit with a focus on geographical expansion.

Syndicate lending facility: "Borrowers can raise funds more cheaply than bilateral engagement while flexibility in structure and pricing often allow for multicurrency drawings and prepayment without penalty."

The US private placement market continues to be conducive for new issuance as underlying treasury yields are very low and credit spreads are attractive. Although conditions are volatile, the high yield market is also playing a big part, especially in the financing of mergers and acquisitions.

From a loan pricing perspective we are seeing the emergence of a number of key themes regarding corporate loan pricing (which has widened in recent months across the spectrum as we shall explore.)

The unresolved sovereign debt crisis continues to weigh on the capital markets as demonstrated by the stressed iTraxx levels and the unsustainable yields on sovereign debt. Whilst the long-term refinancing operation (LTRO) cash injections in November and February served as a temporary fix for European banks, fundamental weaknesses in Southern Europe still threaten the financial system, given the material exposure to sovereign debt by the European banks.

Alan Duffy

This negative economic backdrop, as well as the heightened regulatory environment, has led to banks' credit models pricing in a higher probability of default which has increased the cost of capital for corporate lending.

The loan market saw a significant uplift in margins and fees after the Credit Crunch and the failure of Lehman Brothers but this was more than offset by the impact of expansionary monetary policy initiatives to help revive growth in a struggling economy. Margins throughout 2010 and 2011 came under significant pressure as many companies repaid debt rather than taking on additional risk in the form of debt funded activity such as mergers and acquisitions.

In the summer of 2011, we reached a plateau in the corporate deleveraging cycle with margins bottoming out. This was followed by a deterioration in the eurozone economy which has since culminated in margins widening as increased funding costs fed through bank models and loss given default rates rose.

Bank deleveraging and higher funding costs has reduced euro bank participations in transactions as the financial crisis and uncertainty around Europe continues to effect bank liquidity.

Since 2008, euro bank participations have reduced significantly, coinciding with a downgrade in their credit ratings as well as the sovereign rating. As a consequence, the number of lenders traditionally present in syndicated and/or club facilities has sharply retrenched. Nonetheless, there is still a significant level of activity in this area.

A club or syndicated facility is typically the preferred structure for lenders and the borrower when there is more than one lender with an agent being required to act as the sub-contractor for the borrower handling the paperwork and administration for the lenders.

There are obvious advantages to a club facility including a single point of contact for all requests through the agent bank. While one common document is in place, there is no dependence on one bank with most decisions subject to majority bank voting. Borrowers can raise funds more cheaply than bilateral engagement while flexibility in structure and pricing often allow for multicurrency drawings and prepayment without penalty. It can allow access from a diverse group of financial institutions but this means it can be more challenging to amend any terms and conditions.

By contrast, a bilateral facility with an institution means the client can mix the terms and maturities of each commitment with the lender responding to the borrower directly. Lenders may be more flexible in bilateral transactions and the borrower avoids agency fees although this can be offset by higher legal fees due to the number of different agreements. However, negotiating numerous documents with multiple banks can be time consuming and inefficient, more monitoring may be required if there are uncommon terms. Finally, inter-creditor agreement may also be required taking additional time and money with the company needing to administer drawings of each facility separately on an ongoing basis.

Well capitalised banks with stronger sovereigns are however maintaining their consistent strategy of lending to core relationships. Going forward, the implementation of Basel III in 2013 is likely to materially alter how euro banks structure acquisition financing and long-term structured loans which may reduce liquidity further.

Given this backdrop, alternative sources of debt financing for corporates shouldn't be ignored and we can look at some options in the table below.

Bank debt offers the advantages of high flexibility and a lower cost of funding than typically available through non-bank sources. However, it is shorter tenor and liquidity can be constrained by ancillary income available.

Private Placement offers investor

	Bank Debt	Private Placement	Schuldschein	Unrated EUR Bond	Public Bond
Rating	Not required	Not required	Not required	Not Required	Required
Size Parameters	N/A	USD75-500m	EUR50-150m	EUR250m+	EUR300m+
Flexibility	High	Medium	Medium	Medium	Medium
Maturity	3 - 5 yrs	5 - 15yrs	3-7yrs	5yrs +	5yrs +
Relationship Lenders	Yes	Yes	Yes	No	No
Pricing	Low	Medium	Medium	Medium	Medium
Market Capacity	Moderate	High	Moderate	High	High

diversification, longer tenor funding than bank debt but with equal ranking and no requirement for public ratings. On the down side, early repayment terms can be onerous and an increased number of stakeholders exists for borrower negotiations.

Schuldschein (German Private Placement) offers similar advantages to US Private Placement and provides lean documentation under German law. However a local presence in Germany is required for issuance.

The Unrated EUR Bond market has deep liquidity from a wide pool of new investors and one can revisit the market to possibly build out a curve but on the flip-side, it is more public than PP or Schuldschein and a premium is required for unrated issuance which ranges from 50 to 75 basis points.

Public Bonds are the deepest and most liquid source of debt finance and demonstrate the financial strength of the market to the company. They do however, require a rating which demands cost and management time as well as increased disclosure requirements.

Overall, in the current climate, it pays to transact with an experienced banking partner with knowledge of these products as well as the traditional product suite.

Alan Duffy is managing director and Ireland head at HSBC Corporate Banking.

Public equity: Irish companies should consider early IPOs

The Irish Stock Exchange hosted a conference in Dublin's National Convention Centre on the advantages of raising public equity for Irish companies, and other finance options last month. FINANCE DUBLIN was there.

The advantages of initial public offerings (IPOs) to Irish companies were highlighted at an Irish Stock Exchange's conferenc on growth funding on the 26th of September. Chair Pádraig Ó Ríordáin, a partner at Arthur Cox, as well as panelists Pat Gaynor, managing director of corporate banking Ireland & UK at Bank of Ireland, Frank Kenny, founder of Delta Partners and Simon Howley, a director at Goodbody Corporate Finance, agreed that companies should be encouraged to go to the market at an earlier stage of their development, at as early a stage when they need to raise as little as €5 or €10 million.

Comparing the IPO environment in Ireland to the success of AIM in the UK, Howley pointed out that IPOs 'simply don't crop up on small and medium Irish companies' funding agenda and that greater awareness needs to be built concerning the available options'. 'In Ireland there's been approximately one IPO a year for the last 10/12 years and out of the 50 listed companies in this country, only 10 - 12 have a market capitalisation below €50 million. Yet over half of the companies listed on AIM, a total of 626 companies, have a market capital below £25 million', he said.

According to Howley institutional investors are always interested in good quality medium sized companies because the growth prospects for such companies are often more achievable - it is easier for a company with a €10 million turnover to double its revenues than for a company with €100 million in revenues. However some degree of scale is necessary; he said that a company should have at least €15 to 20 million in revenues to attract investors.

Predictability of earnings and a solid track record is also important to a discerning market, so preferably a company should be profitable and early stage companies will be less suitable. A company that can afford a growing dividend yield will also stand out. When a member of the audience asked what steps a company should take when preparing for an IPO, all of the panelists emphasised putting in place the right team with a proper board structure and management that has the capacity to deal with public markets.

It was noted that the time windows for IPOs are very small. A company needs to ensure it is prepared for when the time is right to float, which can last less than three months; 50 per cent of all IPO capital raised in the US in 2011 was done in a period of seven weeks. The best time for an IPO has traditionally been pre-summer and September/October. In a volatile market investors will wait until they are confident and conditions are right, and this can often be a very brief period. Once this happens a large number of companies will often list at the same time, striking while the iron is hot. Howley says that if Facebook's IPO had been more successful, numerous more tech companies would have followed suit.

Panelists also said that equity financing has been impacted by a flight to safety and currency concerns. According to Kenny, overseas venture capitalists who invested heavily in the 2000s and left in 2008 are now returning. Gaynor says that banks must redevelop their expertise in in relation to financing SMEs because they lost that experience after a decade of property lending.

Many companies also have a property overhang. Gaynor referred to the Independent SME Business Banking survey carried out by Millward Brown Lansdowne for Bank of Ireland in September 2011, in which 62 per cent of respondents said they felt 'banks are not open for business,' even though 42 per cent of these people were approved in full for facilities on their last finance request.

Whether venture capital firms active in Ireland have been overly focused on technology companies was identified. Untapped opportunities in a wide range of sectors were mentioned - food, pharmaceuticals, services, gaming, medical devices, aircraft leasing, payment systems and horse breeding. However some potholes were identified in relation to these industries; food was noted to be a capital intensive business, where a return can't be made on equity alone, as well as an industry where there is huge international competition.

National Irish Bank ticks all the boxes as a banking partner for Irish corporates

What does Corporate Banking mean to you? As strange a question as that may seem, especially in a Corporate Banking feature in probably the most corporate of publications, perhaps you should take a look at the five questions below and ask yourself whether you and your corporate banking activities could fit together better.

1. What should your bank give you?

All the things you'd expect - sound advice, peace of mind, assurance, confidence to concentrate on your own business, value-for-money, etc... You'll find these terms in the brochure of any bank with a corporate focus. And, of course, they are all true. But in reality, your bank should be your partner. It should be the place you go to first for advice. It should have your best interests to heart and it should listen to what you want and then deliver solutions. It should do this in the most efficient and cost-effective way possible, allowing you, the customer, to maximise your resources and returns.

Terry Browne

National Irish Bank (NIB) has been a key provider of corporate banking services for many years. From next month, it will be known as Danske Bank as it takes on the name of its parent in a Group-wide move where all its banking operations across Europe will be harmonised under one brand.

NIB's strong corporate presence is evidenced by the large number of Ireland's top companies who choose it as their banking partner. Its Corporate Banking team, led by Terry Browne (pictured), offers market-leading financial advice and specialised corporate and investment banking services to Irish and international corporate clients. From its base in the IFSC, the team is committed to building long-term relationships with customers nationwide and delivering superior financial solutions.

The Corporate Banking team offers a variety of services ranging from cash management to advising on complex corporate transactions. Dedicated teams provide bespoke strategies to help customers achieve their objectives by working closely with Danske Bank Group colleagues,

"We're already seeing the business potential in advising our clients on their funding needs and then helping them to secure that funding outside of the traditional model."

'As we have a 'one banking platform' ethos, not only do we get the benefits of this constantly improving technology, but we also have a fully integrated Group platform, ideally suited to cross-border transactions and trading,' Browne says.

Marc Caron

'The advice we provide is entirely focused on, and tailored to, our clients, considering what are the best financial solutions for the coming years, not just the next three or six months. For example, there are various regulatory and accounting changes that will impact on companies' financial position over the next few years, but that companies should be considering now,' adds Marc Caron, head of Client Advisory.

2. Is having an international banking group as your banking partner an advantage?

Yes. An international group such as Danske Bank will give a company access to the funding potential and international expertise that isn't always domestically available.

Having international banks in Ireland is central to the future of the banking sector here, says Browne. 'They're key to maintaining competition in the market and to giving customers an international exposure. This is especially evident with a bank like Danske who entered the Irish market in 2005. Having an international presence in Ireland is especially relevant when you consider the importance to the

The future of funding

The market for corporate lending has been quietly changing in recent years. Many corporates are developing their treasury functions and going to the capital markets themselves, using their banking partners for advice instead, a trend that's likely to continue, says Caron. 'The introduction of Basel III from next year will accelerate this process as banks will be required to hold more capital against their loans. We're already seeing the business potential in advising our clients on their funding needs and then helping them to secure that funding outside of the traditional model,' he says.

'Larger companies are now going in greater numbers to the market to raise funds. We've recently seen Ryanair and ESB raising funds through bond sales, giving them greater control of their funding operations and often at keener prices and longer tenors. We can leverage our position as a primary dealer in Ireland, and across Europe, to facilitate our customers to fund themselves on the open market.'

Irish economy of having so many multi-national corporations here. An international bank can cater for these corporations' domestic and international banking needs and thereby help to attract continued Foreign Direct Investment (FDI) into Ireland'.

3. How can an international bank help an Irish company?

The answer to this can be given in four words - relationships, research, risk and reputation.

Relationships - Stephen Mullin, National Irish Bank's Head of International Corporate Banking commented - 'Danske Bank prides itself on building strong relationships with multinational clients across the whole of Northern Europe and in the US', he says. With its network of banks, its relationship focus and its eBanking platform, Danske is ideally placed to support import and export companies, for example, in reducing the complexities sometimes associated with international trade.

> **"As we have a 'one banking platform' ethos, not only do we get the benefits of this constantly improving technology, but we also have a fully integrated Group platform, ideally suited to cross-border transactions and trading."**

Research – Mullin continues, 'The markets are international, so having up-to-date international information is vital if our customers are to compete effectively.' Danske Research regularly publishes reports on market and economic developments across Europe and global markets. 'NIB customers benefit greatly from these reports and from the regular customer presentations we offer," he says.

Stephen Mullin

Risk - Companies are increasingly opting for more secure methods of payment for the export of goods and services. 'The use of financial instruments to reduce the associated uncertainties is finding greater use with businesses all over the world, and that is equally true for businesses with an international focus operating in Ireland,' Mullin says.

Reputation – NIB's International Corporate Banking team has a growing reputation for dealing with multi-national corporations in Ireland. It has a particular interest in supporting the development of FDI into Ireland. 'FDI is a key area in supporting economic recovery and development in Ireland,' says Mullin. 'It's an area where we want to be positioned as the bank of choice for multi-national corporations operating, or seeking to locate here.'

4. Does Corporate strength really matter?

Again, yes. The relative strength of your bank is something that can't be underestimated, as it can directly affect the cost of, and access to, key funding. Danske Bank is one of the largest, best-capitalised banking groups in northern Europe, with total tier 1 capital ratio of 16.0 per cent at the end of 2011. The Group also had assets of €460bn and a market capitalisation of €11.8 billion.

As a full branch of the group, National Irish Bank also benefits from Danske's credit ratings, making it one of the highest rated banks operating in Ireland.

5. What makes National Irish Bank your ideal corporate banking partner?

Apart from the counter-party strengths listed above, NIB has the expertise, the experience and the appetite to become the bank of choice for corporate customers across Ireland and internationally.

Danske Bank is a leader in electronic banking services and is continually developing its online product suite. 'This allows us to look at innovative and secure ways of enhancing our customers' banking experience, by improving cash flow, maximising returns on surplus liquidity, effectively saving time, money and administrative costs. For international corporate clients this is a means of increasing efficiency, increasing profitability, releasing money tied up in working capital, and, ultimately, increasing shareholder value,' concludes Browne.

SEPA will change the European payments process

SEPA is the most important development in international payments for many years. It will create a harmonised payments system across Europe, allowing payments to be made from Ireland to anywhere in the eurozone at the touch of a button.

An acronym for Single Euro Payments Area, a home market area is being established for payments traffic in the European Economic Area (EEA) including all 27 EU member states, as well as Norway, Iceland, Lichtenstein, Switzerland and Monaco. By using SEPA, a company can carry out all payments in the SEPA area from one country, through one bank, using one standard payment type in one instalment and using the same terms.

Barry Manning, Head of Corporate Cash Management is a fan. 'SEPA will open the market up in a truly European way for the first time, allowing all businesses to benefit from a single payments system, offering convenience, time and money-savings. It will lead to new initiatives such as e-invoicing and the greater use of internet payment solutions. All in all, it will make payments simpler for the customer.'

SEPA will mean significant technological change in European payment systems because it involves more than 300 million consumers, 15 million companies, as well as 8,000 banks, public corporations, clearing corporations and software suppliers.

Manning says that SEPA basically means 'creating a payments infrastructure where there'll be no difference between sending a payment to a supplier in France compared to one in Dublin, Cork or Galway.'

For the customer it makes sense. 'If you're a corporate customer headquartered in Ireland, and you have sales operations across Europe, from your account in Dublin you'll now be able to pay salaries, creditors, direct debits and receive payments for your German or Italian sales offices. When SEPA is fully operational, everything will be payable from one euro account.'

It is critical that Ireland can rely on its banks to be ready for SEPA. Every company in Ireland that deals with businesses elsewhere in Europe will need to have a SEPA-ready bank. With its cross-border capability and its award-winning technology platform, Danske Bank is SEPA-ready. In fact, NIB already has a number of customers using its SEPA-direct debit solution.

Following a tradition dating back to the 1960s, Bank of Ireland continues to support inward investment

Bank of Ireland has been helping foreign investors finance their projects in Ireland since the 1960s and today the bank, through its Inward Investment Team continue to support the efforts of the Government and IDA Ireland in winning new investments across key sectors such as ICT, life sciences, social media and financial services, creating jobs and aiding economic recovery writes BARRY MCCALL. It benefits from the relationship banking model they created to support international financial services companies setting up in the IFSC since the 1980s

Ireland's economic recovery is supported by our continued ability to attract foreign direct investment and the ongoing growth of key sectors such as ICT, biopharma, and international financial services.

Indeed, according to recent research carried out on behalf of law firm Matheson Ormsby Prentice multinational companies plan to create up to 20,000 new jobs in Ireland over the next three years. The survey of 315 executives with global firms by the *Economist* Intelligence Unit asked about attitudes to investing in Ireland.

The report found that 45 per cent of them either planned to invest in Ireland for the first time or to expand their current operations in Ireland between now and 2016. Tellingly, half of those planning to create new jobs were in financial services while a further quarter were in the technology sector.

Padraig Rushe, director at Bank of Ireland Corporate Banking: 'Bank of Ireland has been front and centre in supporting inward investment into Ireland for many decades going back to the 1960s'

"We have been proud to support the efforts of the Government and the IDA in attracting investment during that period. When new companies come to set up in Ireland they create new jobs and that is good for the country and the economy." - Padraig Rushe

'Bank of Ireland has been front and centre in supporting inward investment into Ireland for many decades going back to the 1960s', says Padraig Rushe, Bank of Ireland Corporate Banking. 'We have been proud to support the efforts of the Government and the IDA in attracting investment during that period. When new companies come to set up in Ireland they create new jobs and that is good for the country and the economy. Of course, that in turn is good for the bank.'

This supporting role has seen Bank of Ireland grow and develop relationships both with the locally based multinationals and their parent companies in the US, Europe and throughout the world. 'We have a full branch in Stamford in the US, for example', Rushe adds. 'This allows us to grow and develop relationships with US based parents of companies located here. It allows us to complete the circle in terms of the services we offer those companies.'

The bank's relationship with the multinational sector has changed quite significantly over the years, Rushe explains. 'If you go back to the 1970s the multinational firms who came here would typically build very significant manufacturing plants. A lot of the time these plants were funded by Irish banks. This meant that the Irish banking industry had a critical role to play in bringing investment to Ireland. We don't tend to see such large bricks and mortar investments these days so the nature of our relationship and the services we provide has changed.'

These services are underpinned by the bank's dedicated inward investment team. The team, led by Derek Collins, Bank of Ireland Corporate Banking, has unparalleled experience of working with multinational companies and has a clear understanding of their needs. 'We are a full service bank with more than 250 branches in every corner of the country and we can provide a seamless, end-to-end banking service from treasury right through to personal banking. It's a more traditional suite of banking services rather than a credit based relationship now. Our customers tell us that the primary reason for banking with us is this full service offering and significant branch network. They also acknowledge the strong relationship we have with international banks that we partner with. When a multinational company comes here they can be confident that we already have a strong relationship with their main international bank', comments Collins.

He believes the global and domestic financial crises have made little difference to Ireland's attractiveness to inward investors. 'In broad terms, from the perspective of a multinational firm Ireland is a politically and financially stable location. Companies have continued to establish a presence in

Ireland since the recession started. They come here for the people, the reducing cost base and other factors. They don't see Ireland and the economy as problems for them in the overall scheme of things. They are looking for a European presence to grow their business and they just get on with it.'

Collins attributes much of this continued success to the work of IDA Ireland over the years. 'The IDA's role in the strong flow of inward investment has to be acknowledged. Their excellent work over the years and focus on delivering new investments in the key sectors of ICT, life sciences, financial services, social media and consumer content has been of enormous importance.'

"Its a more traditional suite of banking services rather than a credit based relationship now. Our customers tell us that the primary reason for banking with us is this full service offering and significant branch network." - Derek Collins

Bank of Ireland has also supported IDA Ireland's efforts in the growth and development of the IFSC over the years. 'We set up a relationship banking model at the very start of the IFSC to offer companies establishing there the banking support they needed', Rushe points out. 'They may be financial services companies but they need traditional banking services just as much as companies in any other sector. We also actively support the industry associations and government agencies as part of the ongoing development of the industry in Ireland.'

This support for the growth of the international financial services sector has seen Bank of Ireland play a lead role in the creation of what has become known as the Green IFSC. 'We have always been enthusiastic supporters of the IFSC and the Green IFSC is the latest initiative in terms of growing the sector', he says. 'When we were looking for potential growth areas back in 2009 we found strong anecdotal evidence of a large increase in investment in the broad environmental and sustainable industry sectors. Our view was that this could provide a significant opportunity for the IFSC.'

As chairman of the IFSC Banking & Treasury Group, Rushe established a sub-group from within the IFSC to investigate

Derek Collins and the Bank of Ireland Inward Investment team

this potential. 'Our analysis revealed huge levels of spending projected in the sector. While we had been thinking about millions and billions in terms of the level of investment it turned out to be billions and trillions', he recalls. 'The research we commissioned forecast investment of €2.9 trillion in the EU25 from 2011 to 2020 with €600 billion of this being development capital and the balance being on the exploitation of the technologies once developed.'

The question is how all of this investment will be financed. 'The capital will come from a mix of private equity, venture capital, leasing, investment funds, bonds, project finance bank credit and so on', Rushe notes. This creates an opportunity to develop a new segment of activity across the IFSC via the Green IFSC. The challenge for us will be to convince people that they should come to Ireland rather than anywhere else to carry out this activity. A key enabler will be education and there are now undergraduate and postgraduate courses on green finance being offered by both DCU and UCD.'

He draws a parallel with the aircraft leasing industry in this regard. 'We need to have an additional capability in the area of green finance that other countries don't have', he explains. 'Look at the aircraft leasing sector. Ireland is a world leader in this area because we have the people with the expertise in it. GPA is responsible for that. The late Dr Tony Ryan helped develop a whole generation of people with the required skillsets and a whole industry sector has more or less been founded on that basis. Nobody can claim green expertise yet and there is a very real opportunity to get ahead in that area.'

The Green IFSC is on target in terms of growth and Rushe believes it has a direct role to play in the domestic energy sector as well.

'Ireland's renewable energy resources are among the best in the world and all that is needed is to bridge the gap between those assets and the capital required for their development. That's ultimately what the Green IFSC has the potential to do and Bank of Ireland will be right there at the centre of that.'

"Look at the aircraft leasing sector. Ireland is a world leader in this area because we have the people with the expertise in it. GPA is responsible for that...Nobody can claim green expertise yet and there is a very real opportunity to get ahead in that area." - Padraig Rushe

He reiterates his view of the IDA's role in Ireland's continued success as a global investment location. 'The IDA is doing a great job but everyone else has a part to play as well. If the IDA has a company looking at Ireland everyone should help to achieve the goal of getting them to locate here. And once they come it's up to all kinds of businesses including the banks to avail of the business opportunities they will bring; but we've got to get them in first. Bank of Ireland's role in the first instance is to support the Government and the IDA in terms of generating investment and economic growth. After that it's up to us to avail of the banking opportunities presented by this investment.'

Internal financing options are playing a bigger role for Irish companies

Companies should try to acquire a financing mix that limits risk and manitains flexibility writes STEPHEN NOLAN. With the availability of bank financing limited, Irish corporates are looking to other forms of financing both internally and externally.

Few companies are immune from the effects of the downturn. Those who prosper have three common strands - best practice in managing finances, efficient working capital and debt arrangements and a tight, cost effective operation. Central to this is ensuring that the appropriate forms of financing are in place to meet the organisation's current requirements and plans for the future. To help achieve this, the following four steps are essential.

Be proactive and do your homework

Many businesses fall at the first hurdle by failing to adopt a proactive approach to financing. A proactive approach includes reviewing and managing the organisation's financial controls, setting aside time to manage relationships with external funding providers and assessing the short term and long term financial needs of the business. Organisations that take a reactive approach generally realise they have a funding requirement at the last minute and fail to consider the long term effects of a financing decision, thus inhibiting potential future growth plans.

When seeking financing, irrespective of whether you are raising debt or equity, an informative, clear and concise business plan should be prepared. All external finance providers will want to see a clear plan that shows a well thought strategy and, importantly, one that shows a return on investment.

Assess which options suit best

Organisations can source financing both internally within the business and externally in the financial markets.

Internally, assessing options such as realising an existing asset on the balance sheet (for example a sale of a subsidiary or surplus property) may be an option to consider. If this is progressed, organisations should assess the associated implications of such a move, such as loss of knowledge capital if a subsidiary is sold or foregoing on-going rental yield in the case of a property. Furthermore, there is the option to raise equity through existing shareholders, who may be willing to invest further once a return on investment can be demonstrated.

Externally, with financial institutions remaining focused on recapitalising their balance sheets, the availability of debt financing through traditional banking sources has been limited. Many organisations have found it extremely difficult to raise the required quantum of bank financing and have been forced to utilise other funding sources. Where bank funding is available, the terms are strict and leverage is low. An increased focus on the due diligence and approvals process has resulted in applications either taking longer to approve or, in many cases, not being approved at all.

Stephen Nolan

For larger organisations, the bond markets are likely to be the main source of debt financing. Bond investors have shown an appetite to provide liquidity should the duration and coupon on offer be attractive. CRH and Smurfit Kappa have taken advantage of this option in recent times.

The relative vacuum of debt financing has led to equity financiers playing an increasing role in the marketplace. International private equity firms have demonstrated their interest in Ireland with the recent acquisitions of Clerys by Boston-based Gordon Brothers and Fintrax by the UK firm Exponent. For smaller organisations, the increasing community of angel investors may be an option to consider. Generally, not only does this investor class provide financing, but they also frequently lend their time and expertise to ensure their investment flourishes.

Optimise, optimise, optimise

Maintaining a sustainable capital structure is essential to a successful business model and the suitability of each form of finance is different for each organisation.

The duration and terms of financing differ across options and picking the right form is critical. For example, long term debt funding will likely be required when acquiring land or buildings and is normally repaid over a five to twenty year period; medium term debt financing is more appropriate for plant and machinery and is usually financed over three to five years and short term debt financing generally relates to working capital needs over six months to three years.

Furthermore, sometimes doing nothing is not the best option. Organisations need to continually invest to maintain and enhance their competitive position. For example, debt facilities and banking covenants can be renegotiated or refinanced.

To truly optimise an organisation's position and bargaining power in the external market, organisations should assess the availability of financing from different sources. All terms and pricing should be benchmarked and the ability to service interest or dividend payments should be stress tested to ensure the optimal option is selected.

A diverse approach, whereby an organisation is not wedded to one particular financing option is advisable. A financing mix that contains both debt and equity, is spread across different maturities, and perhaps geographies, limits risk and maintains flexibility.

Don't lose focus on the day job

Financial pressures and the requirement to raise finance can divert attention away from the core business. The main objective of any management team is to ensure that their underlying business is successful on a day to day basis. Undertaking the sale of a subsidiary, or courting financing providers to access funding, has the ability to distract from managing the core business and can end up doing more harm than good. By staying on top of financing requirements, management time is optimised.

Whilst views differ on the forecast length and severity of this period of subdued economic growth, the reality is that this environment is now the new 'normal'. Organisations that proactively adapt and stay on top of their financing requirements are those who will be in the strongest position to take advantage of growth once it returns.

Stephen Nolan is a senior manager in Deloitte's Corporate Finance team.

Pre-pack insolvency transactions can help to preserve the value of a company's business

Pre-pack' insolvency transactions have been a feature of insolvency transactions in countries such as England and Wales for some years but until relatively recently, had not featured in Irish insolvencies write FERGUS DOORLY and MAUREEN DALY. Investors interested in buying the assets of an insolvent company and secured creditors should consider using a 'pre-pack' structure to facilitate a speedy transaction which preserves the value of a company's business, goodwill and other assets, they write.

Pre-pack' insolvency transactions have been a feature of insolvency transactions in countries such as England and Wales for some years but until relatively recently, had not featured in Irish insolvencies. Investors interested in buying the assets of an insolvent company and secured creditors should consider using a "pre-pack" structure to facilitate a speedy transaction which preserves the value of a company's business, goodwill and other assets.

Fergus Doorly

This process can allow a change in ownership of a business, a continuance of trade and the preservation of employment without the loss in value that can arise where a business is operated during an insolvency process while a purchaser of assets is sought. It is particularly attractive in the retail sector.

In Ireland there have been a number of sales structured through pre-pack receiverships in the last twelve months in the retail sector.

The term 'pre-pack' refers to a sale of all or part of a company's business or assets where a purchaser or investor has been identified and the terms of the sale have been negotiated before an insolvency appointment is made. Once the insolvency practitioner is appointed he then effects the sale immediately on or shortly after his appointment. In Ireland a corporate insolvency process includes a receivership, liquidation or an examinership and whilst there is effectively no reason why a liquidation or examinership process cannot be used to implement a 'pre-pack', such sales are usually implemented through receiverships. There are circumstances where a restructuring without a sale of assets could be achieved through the examinership process.

Receivership pre-packs typically involve a bank or other secured lender appointing a receiver over the assets of a company experiencing financial difficulty. Prior to the formal appointment of the receiver, a purchaser is identified and terms of sale are agreed for the sale of the assets in question. The receiver then implements the pre-agreed terms immediately on or subsequent to his appointment.

Maureen Daly

The advantage to the 'pre-pack' structure is that the sale can be completed without material interruption to the trading activity of the target company or asset, thereby preserving value and safeguarding jobs. The devaluation of goodwill and the deterioration of key relationships with employees, suppliers and customers that would ordinarily result from a protracted corporate insolvency process can be avoided and creditors can achieve a higher return than might otherwise be the case.

There are some cases where a 'pre-pack' is not appropriate and there are risks associated with implementing a 'pre-pack'. Creditors could be prejudiced as there will not have been much time for the assets to be marketed.

This concern is more acute where the sale is to a party that is connected to the insolvent business such as the management, directors or shareholders. Insolvency practitioners must be able to demonstrate compliance with their statutory duty to obtain the best price reasonably obtainable at the time of the sale of the asset. For this reason great care has to be taken to ensure that appropriate valuations have been obtained for the assets and that he is aware of and takes account of any previous marketing activities carried out in relation to the assets whether by the company or the lender.

In England and Wales (where, unlike in Ireland, insolvency practitioners must hold a licence), detailed guidelines for the conduct of pre-packs have been adopted by the professional bodies responsible for the licensing of insolvency practitioners. Those guidelines were implemented to increase transparency for creditors and confidence in the marketplace regarding the use of pre-pack administrations. The guidelines provide that unless exceptional circumstances exist certain prescribed information must be disclosed to creditors after the pre-pack sale has been effected. The English courts have also approved the use of pre-pack sales in the appropriate circumstances.

In the absence of any such guidelines in Ireland, the critical standard for the insolvency practitioner is to ensure that he obtains the best price reasonably obtainable for the assets at the time of sale, a duty imposed on him by the Irish Companies Acts.

Provided the insolvency practitioner complies with his statutory obligations and adheres to the highest professional standards, there is no barrier to effecting a pre-pack sale in a manner which will stand up to scrutiny.

Pre-packs are not suitable in all cases and it will not always be possible for the insolvency practitioner to carry out any marketing of the assets, the subject of the sale, or to obtain comprehensive valuations for the assets in advance of the sale. There are also some company law provisions which, in some circumstances, could delay a sale. In those cases a lengthier period of time will be required to market and sell the assets.

The absence of formal reporting requirements for pre-packs means there are no statistics available on the use of the process in Ireland, however, it is clear that investors looking to purchase assets from entities in financial difficulties with a view to preserving the value of a company's goodwill and business are increasingly considering pre-pack arrangements as a suitable opportunity for investment. It is also the case that secured lenders can avail of the process in the appropriate circumstances to realise the value of a trading business.

Fergus Doorly is a partner and Maureen Daly is an associate at William Fry.

An evangelist's agenda for creating a successful corporate cash, and liquidity, culture

JIMMY DOYLE considers how corporates can create a successful 'cash culture'. He shows the steps needed to improve the monitoring of liquidity and credit risk.

Never waste a good crisis. This oft-cited quote - recent users include Hillary Clinton - has become a mantra for those in search of opportunities to deliver value in these difficult times, and seems a good motto for reflection at the start of a new budgeting season. The past few years have been a rollercoaster ride for many corporate treasury professionals. The 2008 credit crisis and its aftermath stress tested common practice and, occasionally, demonstrated how tangible 'opportunity losses' can be. Given the recent past, what should corporate treasury consider as their strategic focus for the next few years?

What kept you awake?

By the end of 2007, daily treasury operations had become routine for most treasurers. There might still have been some room for improvements, but in general corporate treasuries were content with their basic processes. Tactical and strategic treasury agendas often contained mostly 'nice-to-haves' and even developments on the technology vendor front seemed stagnant.

The collapse of Lehman Brothers in September 2008, however, changed everything. Overnight, corporate treasuries had to go into overdrive, collecting the necessary cash and cash flow information for executive management. Even when the company was not itself at risk from the turmoil, management had to contend with trading partners not being so lucky. The contracting economy also meant for many companies that substantial amounts of cash were released from working capital with very few investment opportunities.

Taming your nightmares

For most treasurers the additional workload during the immediate aftermath of the credit crisis provided valuable input for their longer-term strategic agenda. If the 2008 crisis demonstrated anything it showed the following hard truths:

- External credit will no longer be easily accessible and will remain expensive for many years to come.
- Securing access to liquidity is a prerequisite for business continuity.
- Labelling risk does not compartmentalise or ring fence it.

Jimmy Doyle

The events of 2008 gave textbook concepts like counterparty, trade credit, liquidity and systemic risk a very real and mostly hostile face. Cash visibility and cash planning have become a daily obsession for most corporate treasurers. Monitoring liquidity and credit risk has become a matter of survival. Thus, treasury has to become an enterprise-wide process rather than a corporate department.

Corporate cash culture

A cash culture builds around 'cash efficiency', which is about more than just managing the cash within the treasury chest. It is best characterised as 'just-in-time' cash management, securing the company's ability to pay its bills in time. A successful cash culture will typically acknowledge that:

- Cash is a corporate resource. Cash is more than a bank balance and the affiliate that legally owns a bank account has no ultimate title to that cash.
- A sale is completed only after the cash is collected from the customer.

A cash culture puts collection from customers at par with revenue recognition and evangelises the time value of money. It galvanises the organisation around facts such as:

- Every 3.5 days' sales outstanding (DSO) represents a funding requirement of 1 million per 100 million sales.
- At a weighted average cost of capital of 8 per cent each 45.6 DSO equals 1 per cent gross margin.

Introducing a cash culture brings treasury closer to core business operations. It makes treasury a partner for strategising on trade terms and conditions, working capital management and payment execution. A cash culture will most certainly make a payment factory and in-house banking readily acceptable and no longer a corporate intrusion.

A focus on corporate cash expands treasury's role and responsibilities in relation to working capital management (WCM). With credit lines under pressure for some companies and with mounting cash for others, flexible trade credit terms and vendor financing can provide an alternative source of funding and tools for supplier relationship management. Also implementing a cash culture and having treasury involved in day-to-day WCM of the enterprise can lead to managing balance sheet and other financial ratios more effectively.

A cash culture naturally extends treasury departmental roles enterprise-wide. For instance, the themes discussed in Figure 1 of 'full cash visibility' and 'grip on cash' expand treasury's responsibility for bank relationship management to including that of day-to-day bank connectivity, irrespective of whether the account is controlled by treasury, is stand-alone or is only indirectly linked to corporate cash pools. This is because full visibility implies accurate and real-time consolidated reporting on all balances, including those of stand-alone accounts. Consequently, a project aiming for full cash visibility must consider:

- Creating a bank statement hub and central repository linked to treasury management systems (TMS) and (local) enterprise resource planning (ERP).
- Automating bank statement upload and auto-matching.
- Integrating bank balance reporting and cash forecasting.

The themes 'understanding cash' and 'controlling cash' bring treasury closer to the businesses. They insert treasury into daily processes of local units and entail a transfer of decision-making power and/or control over the timing of payments and business terms and conditions, including trade credit terms, credit limits and business partner approval.

Corporate risk culture

A risk culture builds on the principle that:

- Risk is inherent to doing business.
- Risk drives the quality of the cash flow and the company's business continuity in the best interest of all stakeholders.
- Managing the volatility of projected cash flows adds value for all stakeholders.

There are two key dimensions to treasury's contribution to a risk culture,

being the management of risks arising from:

1. Business operations.
2. Financial market exposures.

The business operations dimension of a risk culture concerns trading partner acceptance, enforcing trading limits and credit management in general. It also concerns the risk adjusted provisions booked for overdue outstanding trade balances. A risk culture makes sales and procurement sensitive to the financial viability of customers and vendors, and gives incentives for negotiating risk-adjusted terms with partners. Ultimately this means that price lists and trade terms and conditions differentiate by the credit rating of business partners similar to pricing strategies in the financial sector.

The financial markets dimension of a corporate risk culture centres on balance sheet management, optimising key financial ratios and reducing cash flow variability due to market price risks. The focus on financial ratios and weighted average cost of capital (WACC) is important for the company's ability to access external funding from shareholders, banks and other investors. Under Basel III, financial markets will differentiate more and be highly sensitive to risk and credit ratings. Consequently, companies have an interest in managing key input variables for (implied) rating models as these define access to and cost of funding.

Corporate compliance culture

Operational efficiency and transparency, along with process tooling, define a compliance culture. The key objectives are to protect corporate reputation and minimise operational risk. A compliance culture will focus on:

-Process standardisation and automation

- Global applications with strong workflow management functionality.

The scope of potential treasury projects related to compliance dovetails with those associated with implementing cash and risk cultures. The compliance agenda drives the deployment of centralised and integrated systems which support business processes. It is no wonder that those responsible for a company's internal control system welcome payment factory/in-house banking (IHB) and bank connectivity hub projects, as they make they can standardise and make transparent sensitive payment process and therefore more compatible with the key control framework.

FIGURE 1: SUMMARY OF THE POTENTIAL CONTRIBUTION OF TREASURY TO A CASH CULTURE

Sequence	Cash Theme	Treasury Focus	Project Scope
4	Controlling Cash Generation	Unlocking trapped cash Managing financial ratios	Working Capital Management Vendor Financing Balance Sheet Ratios / Financial Ratios
3	Understanding Cash Generation	Anticipating cash	Cash flow Forecasting Internal Cash flow Consultancy Financial Ratios
2	Grip on Cash	When and where to move cash?	Payment / Collection Factory Infrastructure In-house Banking SEPA A/P and DPO Internal cash advisor to business Standardizing efficient Payment Methods Used by business
1	Full Cash Visibility	Where is the cash?	Bank Statement Hub Reported cash

FIGURE 2: ACTION PLAN FOR CORPORATE RISK CULTURE

Risk Theme	Treasury Focus	Project Scope
Business Operations • Customer viability • Supplier viability • Operational risk	Trade Credit Outstanding Risk Adjustment Provisions	Model for business Trading Partner Rating
Financial Markets • Liquidity risk • Interest & FX risk • Counterparty risk • Systemic risk	Optimizing Financial Ratios WACC (Implied) Company Credit Rating Use of derivatives	Working Capital Management External Funding Structure IC Funding Structure

FIGURE 3: ACTION PLAN FOR CORPORATE COMPLIANCE CULTURE

Compliance Theme	Treasury Focus	Project Scope
Operational Risk	Workflow Support Payments Collections	Key Controls End User acceptance / User Profiles Standardization & Centralization Secure Automation Payment Factory / In-house Banking Trade Credit Limit Management Business Trading Partner Acceptance Process Bank Account Management (BAM)
Transparency	Invoice Approval Payment Release	Key Controls Bank Connectivity Hub Internal and Multibank EB tooling
Reporting	Monitoring KPIs related to Cash and Risk Culture	Treasury Data Repository Reporting Dashboard

Source: PwC

Responsibilities, KPIs/incentives and reporting

The elements of the strategic agenda are called 'cultures' for a good reason. Cash, risk and compliance must be part of the corporate mindset, just as sales, growth and profitability are already. Successful implementation of a (new) culture requires cross-functional collaboration, endurance and executive sponsorship.

Executive sponsorship is necessary because the key to success is the roll out of a new, consistent set of SMART key performance indicators (KPIs) and related incentive schemes for most business departments. New KPIs do not necessarily overwrite existing metrics.

Tracking and reporting the underlying KPIs is pivotal when redesigning incentive schemes. If local managers are to become responsible for swiftly approving supplier invoices such that they can be discounted under a vendor financing scheme, a dashboard has to report on the elapsed time between invoice and approval date at an individual invoice level.

A rewarding experience that delivers real value

Embarking on implementing a strategic agenda along these lines will require vision, commitment and investment in effort and resources. However, the overall benefits of a functioning cash and risk culture can far outweigh the effort. Making cash and risk part of the corporate DNA improves the quality of cash flow and of financial ratios by aligning interests across the business. It also improves information on daily liquidity. Such an approach contributes positively to treasury's interaction with stakeholders and enhances the cost of funding/return on assets. There is a huge reward and satisfaction for any treasury professionals willing to meet this challenge, including potential new responsibilities and a closer alignment to the business.

Jimmy Doyle is a senior treasury consultant with PwC.

The daily role four IFSC companies play in the global treasury of Porsche

John Gilsenan, managing director of the Porsche Group of companies in the IFSC, has been part of Porsche's IFSC presence since the company first arrived in the IFSC in 1991. The four IFSC companies play a key role in the treasury functions of Porsche worldwide. Gilsenan discusses the role these companies play for the group's international business.

7.15 a.m. Up out of bed. I am not a morning person so this is not as easy as it sounds! Every morning is different at least regarding the 'lifts to schools' stakes. We have 5 children, 2 of whom, Conor and Jane are in UCD, while the others, Matthew, Mark and Robert, are still in school, so early morning rugby training or swimming will dictate the time of departure, the route taken and the number of occupants in the car and indeed drop-off points. After all that logistical effort, work itself is a doddle!

9.00 a.m. Arrive in office - I could say that I start at 8 am or earlier for the purposes of this article but friends and colleagues know the truth. I have noticed that traffic travelling from the southside to the IFSC has increased as more companies relocate to the South Docklands, so that's my excuse. On arrival, do the usual - check emails and post, although I get company emails on my mobile phone and so have a fair idea in advance if anything troublesome is heading our way.

9.15 a.m. Our loyal and hard working global cash manager Siobhan White has our daily cash position sorted as usual and has calculated our investment fund subscriptions and/or redemptions for the day. Our treasury mandate here in Dublin is to balance daily the global multi-currency cash pool comprising our own accounts and all the Porsche AG Group subsidiaries' bank accounts. In other words, we try to bring all the positive and negative bank balances to as close to zero as possible in order to optimise the group's liquidity. Within this framework, we provide loans to and take deposits from our fellow subsidiaries. We have Deutsche Bank accounts in Euro, USD, GBP, JPY, CAD, AUD, CHF, SGD and HKD and we have cash sweeps in euro, USD, GBP and JPY to automatically sweep our subsidiaries' balances in these currencies into our own bank accounts. After our position is calculated and checked, we basically settle our net euro position, including that arising from FX forward swaps, with the parent company. Easy! Other services we carry out include the collection of invoices less credit notes due to the parent from the main Porsche sales subsidiaries worldwide, net them into the

various currencies and remit them to the parent three times per month. We also collect Euro invoices due to the parent from many Porsche importers in Europe.
We have four companies here in the IFSC:- a management services company Porsche Financial Management Services Ltd; our treasury vehicle Porsche International Financing plc (PIF) as explained above; Porsche car warranty reinsurer Porsche International Reinsurance Ltd (PIRL); and a Bond issue company Porsche Holding Finance plc. We are 21 years in existence in Ireland and are proud of the business we have built up here over the years and are fully intent on maintaining and indeed expanding it into the future.

10.00 a.m. Meeting with our auditors, Ernst & Young to plan this year's audit. 31st December 2012 will be our first final accounts reporting date following the Porsche - Volkswagen merger last August. As PIRL is a subsidiary of PIF, we have consolidated accounts to prepare, as well as the four individual companies' financial statements. PIF is the issuer of Eur 1 bill corporate bond issue (in addition to its cash management business) and so under the EU Transparency Directive, we must publish these consolidated accounts no later than 4 months after the year end. This appears a reasonable time frame but despite all sorts of new year's resolutions we are always up against it.
Our parent company Porsche AG is well known as a premium car brand and currently enjoys being the most profitable car manufacturer in the world. 128,000 cars were produced in 2011 and the group earned net profit of Eur 2.1 billion from a turnover of Eur 11 billion, a return of a very healthy 19 per cent.
Extra reporting requirements are of course a given due to the merger, at least for the short term, and we are adjusting our monthly routines to meet these. Year end reporting deadlines are so tight now that a lot of the audit work is done before the year end. In general we seem to move from one deadline to the next - no sooner is one met than another one looms menacingly!
Our Financial Controller Avril Farrelly has to and does perform wonders in the short time from month-end to reporting deadline to get all in order and placate our masters. We try to be professional and consistent at all times and this earns us a very good reputation (we hope) with our parent company and fellow subsidiaries in the Porsche Group.
In the office, we have all concluded (from bitter experience!) that there is usually only one way to do something right but lots of ways to do it wrong, so we try to get it right first time. Here in Dublin, we are but four staff - we all work hard, we get the job done and then we go home!

11.30 a.m. Meeting of the Stand Alone Corporate Treasury Group of Financial Services Ireland in the IBEC offices in Lr. Baggot Street. This group comprises 'stand alone' treasury management companies operating in Ireland such as Pfizer, Xerox, Securitas and Porsche. We discuss the issues of the day that pertain to the international financial services and treasury sectors. In the present climate this naturally involves regulatory issues such as the possible future reporting of derivatives business. The overall scene is surveyed including taxation, training and new possibilities for activity in the areas of Green finance, Islamic Finance and venture capital/ private equity. It is great to be involved in this Group to find out what's going on in the sector and indirectly help maintain Ireland's attractiveness and continued growth as a location for international financial services.

1 p.m. Catch up with a friend of long and good standing, now retired from the banking world and successfully working as an independent non-executive director for several international financial services companies. Have noticed that the 'pension' word is cropping up more often as my peer group advances in age!

2.30 p.m. Back in the office preparing for our next board meetings in November. As with most businesses operating in a multinational environment, board meetings in the Porsche Group are a very formalised process with agenda papers to be distributed and requests for approval circulated to directors at least four weeks before the meetings. A full presentation pack must be prepared for each company including full reviews on compliance, reporting and regulatory matters. Time was when there was an entrepreneurial spirit to our endeavours as our presence here grew. But with more regulation and compliance, both from external regulators and legislators and from within as the Porsche Group has grown in size and complexity, this is the current real growth area rather than increasing the size of the business. Nonetheless, I think this will settle down and allow us move to our next phase of growth.

3.30 p.m. Respond to emails regarding net premium payments due from our fronting insurer Allianz. Our reinsurance subsidiary Porsche International Reinsurance Ltd is involved in reinsuring warranty contracts on pre-owned Porsche cars sold by Porsche dealers throughout Europe. It started as an add-on activity to our treasury business but has now grown each year and now we reinsure 40,000 contracts each year through our fronting insurer Allianz Versicherungs AG. The company is regulated by the Central Bank of Ireland and we work closely with our auditors Ernst & Young, our actuarial advisers Allied Risk Management and KPMG and legal advisers William Fry to ensure the smooth running of the company in all respects.

4 p.m. We have just refurbished part of our offices here on the 3rd floor of Exchange Place in the heart of the IFSC. Our contractor arrives to complete the snag list and hopefully from his point of view to convince us to release the balance due to him. He's done a great job but it is true that it is almost impossible to carry out such works without upsetting someone - which reminds me to send a couple of model Porsche cars to the tenants on the first floor as a peace offering!

5.00 p.m. Phone my wife Micheline and catch up on the day's news and ask her where my dress suit is - she reminds me that it is indeed my dress suit and therefore (not unreasonably) that I should know where it is and indeed the condition of it after its last outing!
The reason for all this witty banter is that tonight is the black tie Annual Dinner of the Irish Association of Corporate Treasurers.
The Association is 25 years old this year and the past presidents (of which I am proud to be one) are receiving a commemorative medal from our president Barry Dempsey. I am looking forward to meeting my friends and colleagues and hearing my favourite comedian Barry Murphy do his after dinner German/ Irish pixies routine.

Indeterminate hour: Home! The weekend stretches ahead and has arrived just in time.

John Gilsenan is managing director of the Porsche group of companies located in the IFSC Dublin. Educated at St Mary's College Rathmines, he is a commerce graduate of UCD and a fellow of the Chartered Association of Certified Accountants and the Institute of Taxation in Ireland. He joined Porsche from its inception in 1991 and was made general manager and a director in 1996, having previously worked in banking and in Ernst & Young.

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