BOARDROOM BASICS

No one wants to make a hash of briefing the company's directors.
Sally Percy asks experienced treasurers how they get it right

A treasurer's place is in the boardroom. Not all of the time, of course, but some of the time at least. That is one of the principal findings of *The Contemporary Treasurer 2016*, the ACT's latest research into the evolving influence of treasury on corporate financial strategy and business growth.

Nearly 200 treasurers across the UK, continental Europe, Asia-Pacific, the Middle East and North America were interviewed for the study, which found that treasurers globally are contributing far more strategic advice to their organisations than they did five years ago.

It is not just business strategy that treasurers report on, however. Their board reports tend to encompass a broad range of subjects, from capital and liquidity management and risk management through to corporate finance, treasury operations and controls, and pensions management.

So just what does presenting treasury matters to the board entail? And is it really the horrifying prospect that it might seem?

Prepare to succeed

At energy giant Centrica, group treasurer Katherine Horrell reports to the 12-strong board on an annual basis. If she is presenting to the board in person rather than just providing a written report, Horrell makes sure that she's very familiar with her report and the treasury policies before she enters the boardroom. "If I'm presenting in person, I would normally go through it with the CFO beforehand and agree the headlines we want to bring out," she says. "But mostly I prepare by reading through what I've submitted and making sure I've got the latest information on topical issues. The board has asked about eurozone volatility in the past, for example."

Private equity- (PE) owned foam manufacturer the Vita Group has a board of four comprising the CEO, a bank-appointed representative and two directors nominated by the PE owners. Board meetings are held four times a year and group treasurer Chris King prepares written reports for each board meeting. From time to time, he may also be asked to present.

King's written reports are normally PowerPoint presentations on two or three topics – with no more than four slides per topic. He recommends preparing for the meeting itself by doing a run-through with peers. "That way, you can get wider challenge before you brief and also explore the 'what if' scenarios," he says.

Rando Bruns, head of group treasury at German pharmaceutical company Merck KGaA, has interactions with three different boards in his role – a management board, a supervisory board and a family board (Merck is 70% owned by family shareholders). Bruns mostly engages with the management board and the family board. The management board is currently focused on the company's credit rating in light of its $17bn acquisition of Sigma-Aldrich, the largest acquisition in the company's history. Meanwhile, the family board is regularly interested in financial risk management, particularly the company's management of pension risk and its use of derivatives to mitigate FX and interest-rate risk. "The management board is very close to the operational business so you don't have to explain as much to them as you do to the family board," says Bruns.

While treasurers don't normally present at board meetings in the Middle East, Gary Slawther attends all the board meetings for his company, Oman-based packaging company OCTAL. The board consists of five members, comprising the CEO, three directors who represent the investors and one non-executive director who has a chemical engineering background. Slawther has a treasury background, but because his job title is 'financial adviser to the CEO', he actually addresses a range of topics in his report. This could be from the previous quarter's results and the current cash and financing position through to marketing and new products.

The business culture of the Middle East has an impact on which aspects of treasury are discussed at the board meetings, Slawther says. "This is still the place where cheques reign supreme, so there is always a big focus on cash and liquidity. There is also a big focus on what is happening now in terms of the commercial operations – the immediate future is far more important than what will happen in five years' time." A tendency towards risk aversion and secrecy in business also means that boards are highly interested in protecting their markets and keeping competitors out.

Question time

Horrell says that the questions posed by her board will vary according to the nature of the issues facing the company at the time. Centrica suffered a downgrade in 2015, which has made the company's credit rating a key priority for the board. "The credit rating has been one of the key issues for us over the past three or four years," she explains. "But in 2013, we did a debut bond issue in the US, so it tends to be whatever is topical in treasury."

Nevertheless, it is a case of 'expect the unexpected' when it comes to questions because they can be on any topic. "You can put out a paper that covers all the work you've done in the past year and you might expect questions in one area, but then get asked questions in another," Horrell says.

With King's board, questions tend to cover a lot of 'what if?' scenarios. "So if we're working on a pension issue, it might be: what is within the trustees' powers in terms of how they could react to our proposal?" He tries to answer the questions he can and then gets back to the board on any he can't answer at the time. "You cannot know everything and a good board is likely to have questions you can't always answer," he says. "But you should prepare sufficiently so that they are isolated questions rather than every question."

When it comes to answering questions, Slawther says it is important to be both diplomatic and respectful. "If I don't know the answer to a question, I'll take it away and do some research and then come back with an answer at the next board meeting."

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TOP TIPS FOR PRESENTING TO THE BOARD

Limit the messages that you want to make to as few messages as possible and keep them simple.

Use graphics and visuals to convey key points in a straightforward way. For example, a graphic of a 13-week cash-flow forecast showing that you're outperforming your budget or underperforming your budget gets the message across very clearly.

With written reports, remember to tailor your content towards the end audience.

Flag up potential risks early – for example, if projections show the organisation could breach financial covenants or liquidity is tighter than planned. Then say which actions treasury is taking to mitigate those risks.

Don't ask the board to consider very difficult or technical issues.

Avoid using the board meeting as an opportunity to announce surprises – either bad ones or apparently good ones. They won't go down well with any of the directors – particularly not the CFO.

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The CFO's view

David Tilston, former CFO of banknote substrate maker Innovia Group, has experience of sitting both sides of the table when it comes to treasury presentations. As a corporate treasurer earlier in his career, he reported to the board on matters including financial covenants, liquidity and refinancing. More recently, he has sat in board meetings while the treasury team has been presenting.

Tilston's advice for treasurers who are called before the board is not to talk about treasury in depth. "It's best to avoid having the board thinking about very difficult or technical issues," he says. "Warn them of any issues and then serve the answer on a plate so they are in a position to monitor the delivery of the solution. Getting into complicated discussions of treasury matters is not something to be done around the boardroom table."

Where treasurers slip up in front of the board, it is usually in two ways, Tilston explains. The first is by "making the presentations too technical and assuming a degree of treasury knowledge that may not be there for the majority of non-execs". Secondly, they don't manage to convey the key messages clearly enough.

As a board member, Tilston is focused on the following areas when assessing treasury's report: have we approved a policy around this area and are we complying with that policy currently? Is our trading on track from a cash and financial covenant perspective? And if I look at the forward projections – be they on cash, financial covenants, funding or currency – are we projected to be on track with our expectations or are things beginning to deteriorate? Then, if they are deteriorating, does the management team have a sensible plan in place that it is likely to deliver? At subsequent board meetings, I'll want an update on the deterioration and whether our mitigation plans are working.

Treasury does have a role in supporting the board's strategic decision-making, Tilston confirms. "If the board is looking to expand the company and that's going to require significant debt or equity funding, the treasurer has to immediately deal with strategic issues," he says. "If they know it can't be done, or the risks are unsustainable, then they are duty-bound to ensure the board understands this. Similarly, if it can be done, the treasurer is tasked with delivering the relevant debt packages in a way that supports the acquisition or the expansion. But it's pointless for the board to get excited about a debt-finance acquisition if it's not deliverable."

Bruns tries to translate common treasury terms into terms that board members find easy to understand. "The members of our management board are experts in pharma, chemicals, R&D or HR," he says. "So I do not assume they know all the treasury terms and I try to keep my presentation simple. I try to translate treasury-specific terms into terms they use more typically. For example, in treasury we might talk about ratios of cash flow to debt, but you can translate this into what it means in terms of EBITDA or profits or sales."

Bruns adds that while boards tend to have a good understanding of the needs of equity investors, they can be less familiar with what debt investors require. So some background briefing from treasury is useful in this respect. "With debt investors, the contact is usually just with treasury or the CFO," he says. "Equity markets work differently from debt markets. An equity investor is interested in a growth story and wants a higher share price. A debt investor wants their money back. They have different interests."

> "It would be nerve-wracking if there were questions I couldn't answer, so preparation is key"

Scary stuff?

So is presenting to the board really terrifying? "It can be a bit daunting to present to the board as they are very senior and you don't know them," acknowledges Horrell, whose board includes Rick Haythornthwaite, previously CEO of one-time FTSE 100 engineering company Invensys, and Carlos Pascual, formerly a senior adviser to the US Secretary of State on energy issues. "But I have always found the atmosphere in meetings to be supportive and helpful. They want to understand your area, rather than trip you up, so I have found it to be a positive experience."

Slawther admits that he relishes the challenge. "It's not nerve-wracking," he says. "It's more like an exam. If you're well prepared and feel confident about being able to answer questions, you should do well, but you should never get complacent. Also, a certain amount of adrenalin pumping helps you to concentrate and focus. It would be nerve-wracking if I felt I didn't know my stuff or there were questions I couldn't answer, so preparation, preparation and preparation is key – even if it's last-minute cramming."

If the thought of presenting to the board gives you minor palpitations, you can take comfort from the fact you probably won't need to do it for long. Most of the treasurers interviewed for this article normally address the board for between 10 and 20 minutes in total.

"When you present in person to the board, you have quite a limited window in which to do it," explains Horrell. "Also, often your slot never comes up quite at the time you're scheduled for – they're running ahead or they're running behind. You might have to speak within a shorter time frame, or just take questions. So you need to be flexible."

Seen and heard

Some boards have a greater understanding of treasury matters than others. So PE boards tend to have a good grip on cash, for example, and Horrell says that Centrica's board is "well versed" on treasury issues and financial risks.

Nevertheless, regardless of the overall level of treasury knowledge among the board, presenting to the board is still a great opportunity to raise the profile of treasury within the organisation and remind the organisation's most senior figures of all the great work that treasury does. Fortunately, leading treasuries have already got this worked out.

"Our board sees treasury as the custodian of financial risk management," says King. "So when there is market volatility, they are very keen for us to be present."

Sally Percy is a business and finance journalist, and former editor of *The Treasurer*