

Wolseley plc

Mike Verrier • Group Treasurer



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Richard Parkinson, Mike Verrier and Kevin Grant, IT2

WOLSELEY

With operations in 27 countries in Europe and North America, Wolseley is the leading global distributor of plumbing and heating products to professional contractors. Wolseley has 63,000 employees and reported sales of £16.5 billion in 2008.

When Wolseley's forecast net debt to EBITDA ratio was unexpectedly increased by 0.2 in late 2007, it was evident that action needed to be taken to avoid breaching loan covenants. At 2.9 times, the ratio was still well below the 3.5 times that would lead to a loan covenant breach. However, with building and construction markets continuing to deteriorate, it was important to pay attention to the warning signs.

The decision was therefore taken to act proactively in order to keep ahead of the declining markets. In practical terms, this led to a number of initiatives. A more sophisticated approach to cash flow forecasting was adopted in partnership with IT2 to determine both a 'base case' and more pessimistic 'down side' projection of cash flows, enabling the treasury to set out different layers of mitigating actions to be taken, whether markets continued as they were or deteriorated further. This approach also enabled Wolseley to reduce working capital and optimise internal cash.

The next step was to negotiate new facilities, comprising two credit facilities and three receivables facilities. Together, these provided the group with £1 billion of borrowing headroom. The proactive approach paid off: by arranging the facilities in 2007, Wolseley was able to achieve better pricing than would have been possible in the significantly worse conditions of 2008.

As the market continued to deteriorate through 2008, it became evident that further action needed to be taken. Consultations with shareholders revealed that a major equity issue was preferable to a further increase in debt, as this would strengthen the balance sheet and place the company in a stronger position when conditions recovered. At the same time, the existing borrowing facilities were to be extended.

The comprehensive refinancing package completed in March 2009 therefore consisted of

an equity placing and rights issue which raised £1 billion. At the same time, existing bank facilities were extended using a forward start facility, which is a new financing model under which banks agree in advance to renew an existing facility upon maturity. Although Wolseley's existing facility was not due to mature until 2011, the company was looking to extend this as far as possible.

Until this point, the longest maturity of a forward start facility seen in the market was three years. However, Wolseley was able to negotiate a facility with a term of four years and five months. Rather than keeping the syndicate from 2006 when the existing facility was arranged, Wolseley was able to self-syndicate the deal with the banks that had demonstrated the highest commitment.

This project shows a forward thinking and innovative approach to the difficulties in the current market. With a combination of sophisticated forecasting, equity issue and new financing techniques, Wolseley has transformed its balance sheet risk into refinancing risk – and then mitigated the refinancing risk using a forward start facility of a term not previously seen in the market. Other benefits include negotiating more attractive bank fees, which was achieved by using largely the same banks for both the equity raising and the forward start facility. The company's currency debt mix has also been rebalanced in the course of the project, while the innovation of running three sets of forecasts in parallel enabled the Group both to understand better the rapid market changes and to react to them more swiftly.

“This forecasting approach caused management across the whole business to focus more closely on improving cash flows,” comments Mike Verrier, Group Treasurer. “It therefore conserved capital and more strongly positioned the Group to react quickly to improvement in market conditions or weather better any further unexpected downturn.”

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