With revenues doubling and rapid expansion leading to an increase from 16 to 36 global business units, Dechra Pharmaceuticals faced a major challenge in managing its intercompany flows. In this case study, Dechra's group treasurer Steve Card explains how they met the challenge.

The company

Dechra is an international specialist veterinary pharmaceutical and related products business, with expertise in the research, development, manufacture, sales and marketing of high-quality products exclusively for veterinarians worldwide.Dechra has sales and marketing operations in 24 countries and sells into over 50 countries globally.

Much of the Group's geographic expansion, has arisen as a result of acquisitions made in the past four years. This has not only increased their established presence in Western Europe and the USA but has also expanded the Group into new territories such as Brazil, Canada, Croatia, Australia, New Zealand and Mexico.

During this four-year period, group revenues have grown from £194m to slightly over £400m, with the number of business units increasing from 16 to 36. It is likely that this growth, both in volume and geographic expansion will continue in the future.

The challenge

In 2014, Dechra did not have any formalised treasury operations, no intercompany netting system, no formal intercompany loans reporting, and no cash pooling arrangements. Essentially, the Group was operating as 14 autonomous businesses from a cash perspective.

However, with expansion, several issues around the management of treasury operations became apparent.

First of all, the Group's head office needed cash to fund both acquisitions and an increasing group dividend. Their growing number of bank accounts across the globe required more disciplined control and reporting. With a higher volume of intercompany trading, bank charges and adverse FX charges increased. Along with an increasingly complex network of intercompany lending, it became clear that the Group must implement some form of central control.

The major obstacles to creating an effective intercompany system were:

- The sheer volume of transactions that would need to be captured and reported (presumably by using some form of Excel system);
- Intercompany activity in different systems;
- The volume of multi-currency movements and positions, and the desire to report only in the functional currency of the business unit;
- and Combining and collating these disparate activities.

Any solution to these challenges would have to take into account the continuing introduction of both new acquisitions and new geographic jurisdictions.

The solution

Having established a central group treasury, the group initially reaped the benefits of the ‘low-hanging fruit’ by implementing a group-wide intercompany netting system and a notional cash pool in Europe, which covered, at that time, most the group’s cash operations.

The group had several requirements for the netting system, but the primary objectives were:

1. Centralise control of the intercompany process.
2. Better manage cash movements.
3. Improve the invoice level reconciliation process and hence Consolidation.
4. Ensure accurate numbers in the P&L and Balance sheet for Intercompany transactions.
5. Increase visibility and transparency of intercompany flows.
6. Integrate into the existing and planned systems in Treasury, such as TMS, Rates feed, FX dealing platform, cash and non-cash movements.

All these were achieved by implementing Coprocess’ intercompany netting system.

The benefits/results

Dechra and Coprocess worked together over a period of three months to deliver a comprehensive Intercompany netting system that allows for:

- Reduction in costs
- Simplification of the settlement process
- Easier and safer control of payments and FX
- Greater accuracy of hedge transactions
- Structure and discipline applied to intercompany processes
- Banking system netting benefits

The Intercompany system on Coprocess’ SaaS software allows all business units to load invoices, check positions, get timely messages about settlement and details in machine and human readable formats delivered to their inbox.

Most importantly, all these benefits are being achieved with a minimum of manual intervention on behalf of the (two) Group treasury staff. This allows the Group treasury team to concentrate on the management, control and reporting of the Group’s cash, FX and intercompany positions rather than being focussed on the collation and preparation of the data.

Furthermore, the Coprocess system will allow for future growth within the Group, whether organically or by acquisition and lets the business adapt to the inevitable changes in reporting requirements and group structures.

The implementation of Coprocess' intercompany netting system, is a significant and valuable development of the Group's treasury operations, which will enable Dechra to continue to grow globally whilst providing accurate and timely transaction processing.

Lessons learned

- Netting is best done in a specialist tool, not TMS or ERP.
- The software is great and so much better than used before.
- Go beyond your bank or current provider to source the right system for your needs.
- Steve has now used the software in more than one company.

Bio Steve Card, Group Treasurer, Dechra Pharmaceuticals PLC
After graduating from Loughborough University, Steve spent 10 years in the City with Midland Bank and TSB Bank, before moving into Corporate Treasury with Littlewoods Group in Liverpool. Group Treasurer roles followed with Scapa plc, Signet plc and Ideal Stelrad, together with treasury consultancy positions for Nycomed Amersham plc, Northumbria University and Findus Group, whilst running his own company. Steve has now been in position with Dechra Pharmaceuticals PLC for five years as Group Treasurer, building a new Treasury department from scratch. Married with four children, a staunch Sheffield Wednesday supporter and an eternal optimist.