

The ABB Group Overcomes Major Liquidity Crisis with Strategic Finance



The ABB Group
Zurich, Switzerland
www.abb.com

Industry:

Engineering & Construction

Annual Revenue:

US\$22.4 billion

Employees:

103,000

Oracle Products & Services:

Hyperion Strategic Finance

Key Benefits:

- Overcame major liquidity crisis by renegotiating line of credit
- Enabled ABB to confidently run simulations on capital structure and cash flow positions
- Developed business plans and local simulation capabilities at all levels
- Gained transparency of locally expected operational performance and individual country tax and liquidity developments
- Achieved accurate results based on estimates
- Provided assurance to stakeholders of future cash generation and liquidity

“Faced with a major liquidity crisis, we urgently needed to recapitalize our balance sheet for 2003. A significant challenge was the fact that our existing financial software tools weren’t really up to the task. When we looked at the tools available on the market to help us, we found Hyperion Strategic Finance was the only product capable of handling our simulation requirements. There was really nothing else comparable.” – Barton Champness, Head of Financial Planning, The ABB Group

The ABB Group, a leading global engineering company, has an illustrious record of innovation and technological leadership in many industries and has helped countries all over the world to build, develop, and maintain their infrastructures.

In 2002 and 2003, ABB overcame a major liquidity crisis with the aid of Oracle’s Hyperion Strategic Finance. With Hyperion Strategic Finance, ABB was able to conduct modeling and planning for its highly complex business and provide stakeholders with renewed confidence in its financial position.

“From a financial perspective, the key defining event in our recent history was the liquidity crisis we encountered in 2002/2003 triggered by the asbestos litigation in the United States against Combustion Engineering, an acquisition of ours from the early 1990s,” said Barton Champness, head of financial planning, ABB Group. “As a result, we lost our investment-grade credit rating and as a consequence our line of credit. Further aggravating this problem was the fact that we had been using shorter-term Commercial Paper. When these matured, we were forced to refinance at a higher cost than had we not lost our investment-grade rating. In order to maintain liquidity in the face of these costs and cash outflows, we urgently needed to recapitalize our balance sheet for 2003. Our biggest challenge was the fact that our existing financial software tools weren’t really up to the task.”

Until this point, ABB had used Microsoft Excel spreadsheets for strategic planning and simulation purposes. These spreadsheets were very limited in terms of cash flow modeling and the ability

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to simulate different debt to equity mixes. As a result, the company was only doing simulations at the group level as they could not run them at the divisional or business unit level. With so much riding on the decisions supported by these models—such as restructuring the balance sheet and turning around the company’s results—ABB vitally needed software on which they could depend to provide models with built-in accounting integrity and easily verify the calculation logic.

After an evaluation of the tools available to help them achieve this, ABB chose Hyperion Strategic Finance, a powerful strategic financial modeling application that lets ABB executives understand the full financial impact of alternative strategies.

“We introduced the ABB Financial Planning Tool (based on Hyperion Strategic Finance) as a management tool to facilitate strategic modeling and investment decisions grounded on a sound financial database. The ABB Financial Planning Tool is used for Group and Country Financial Planning for our own businesses and to evaluate targets for M&A,” Champness said.

Modeling and Forecasting to Overcome Crisis

Rather than spending valuable time on building, maintaining, and training finance employees to use cumbersome spreadsheet modeling tools, Hyperion Strategic Finance provided ABB with packaged financial modeling and forecasting. This allowed the company’s finance personnel to spend their time testing alternative strategies, building contingency plans, and understanding the impact of those strategies and plans on the company’s long-term performance. It has allowed ABB to produce financial models with integrity and transparency in order to minimize risk—an absolute must in terms of the liquidity crisis the company faced.

“We were able to overcome this major liquidity crisis after Hyperion Strategic Finance allowed us to confidently run simulations on our capital structure and cash flow positions and to present these results to our creditors and rating agencies. This helped us to renegotiate our line of credit. Hyperion Strategic Finance was invaluable in preparing the ABB Group financial plan and providing assurance to stakeholders of our future cash generation and liquidity,” Champness said.

Increased Business Control and Transparency

By preparing bottom-up business plans for a five-year period, based on corporate rules and standards, ABB has increased its operational business control awareness up to a comprehensive controlling perspective that includes full Income Statement and Balance Sheet. ABB has gained full transparency of locally expected capacity and financial developments including: future country liquidity projections using global targets; calculated expected tax expenses and the development of deferred taxes; and country capital structures and funding requirements. This has enabled ABB to better optimize its capital structure. ABB also uses the planning data to support the annual Budget and for portfolio simulations, goodwill defense, and presentations to banks and ratings agencies.

Accurate, Invaluable Results

“What impressed us about Hyperion Strategic Finance was that the projected results from our 2003 simulation were extremely accurate as compared to the actual results that followed. For example, actual net income for the group in 2005 was within 3% of the projection we had determined as part of the simulation we ran in 2003,” Champness said.

“The bottom line is that we wanted to get our investment grade rating back in 2006, which is exactly what we have achieved. Hyperion Strategic Finance was and continues to be an important part of our turnaround. As we plan and make acquisitions, we can evaluate the impact a portfolio of deals might have on the group’s credit statistics. We can thus protect our recently regained investment credit rating. The solid underlying logic of Hyperion Strategic Finance provides us with confidence in the decisions we make based on these models. It would have been much more difficult to achieve what we have without this software,” Champness said.

Why Oracle?

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Implementation Process

After ABB decided to purchase Hyperion Strategic Finance, the implementation took only four months.

“We began with 40 users of Oracle’s Hyperion Strategic Finance, based within our corporate headquarters, to handle all of our strategic planning needs such as M&A, capital structure simulations, and our five-year Group Financial plan. During a second implementation phase, we added additional users within each of our major territories. We conduct Country Financial Planning in order to validate the Group Financial Plan and determine specific country financing needs, as part of tax planning. We currently undertake Country Financial Planning in 22 countries, representing 85% of ABB Group revenues,” Champness said.

The ABB Group is a leader in power and automation technologies that enable utility and industry customers to improve performance while lowering environmental impact. One of the world’s largest engineering companies, ABB operates in about 100 countries.