

What is the impact of a change in interest rates on the value of land holdings? On public sector contracts? In other words, what is the direct and indirect impact of interest rate changes on the results of this listed company? Heijmans was unable to give a clear answer to these questions. Bas Duynisveld, who is now working as a consultant with Zanders, learned all about corporate risk management and made sure Heijmans gained a better understanding of its interest rate risk.





Heijmans identifies interest rate risk

Heijmans is one of the leading three construction and property companies in the Netherlands. The company, which was founded in 1923 by roadworker Jan Heijmans, has experienced turbulent growth in the past few decades. Heijmans currently employs more than nine thousand people who together realize a turnover of approximately three billion euros.

Dick van Ommen was appointed Financial Director of Heijman's Infrastructure Division on 1 February of this year. Before that he was Director Corporate Finance of Heijmans N.V.. "Occasionally, you want to take the time to examine certain things in greater detail. Our exposure to interest rate fluctuations was

Van Ommen: "When you set out to study an issue like this, you don't specify any detailed deadline or target in advance. I also had no clear concept of the dimensions of the issue at the beginning. It really was a matter of putting our feet up and discussing it." Zanders had previously developed a framework for corporate risk management, which was successfully implemented at several clients. This framework proved to be an ideal basis for tackling the problem as defined by Heijmans.

one such thing. Not that the direct risk itself is so complicated. To understand it you really just have to look at your loans and interest rate-related items. If I borrow a million from a bank and the interest rate rises by 1%, then that is my interest rate risk. No difficulty there. But what we didn't know is how great the indirect risks are." Heijmans' earnings are affected by all manner of things. Says Van Ommen: "We sell over 3,500 houses a year. What is the impact of interest rate changes on the sale of those houses? We also have a great many land holdings, for example. How does a movement in interest rates affect the price of these holdings? And how does the government respond in such a situation; is there a relationship, for example, between public expenditure and the level of interest rates?"

In addition to analysing these two levels - direct and indirect - Van Ommen also wanted to look at a third level. "It is also interesting to factor future earnings into the capital cost of the company and see what effect interest rate fluctuations then have." In this way a relationship is established between corporate risk management and the creation of shareholder value.

Suitable subject

Heijmans contacted Laurens Tijdhof, one of Zanders' managers, for an answer to all these questions. "The relationship with Zanders goes back a long way", says Van Ommen. "I knew they had a programme allowing students to complete their final thesis under the mentorship of Zanders while working for a client. I thought this offered a suitable subject for this programme. This is typically something you need to take your time analysing." Zanders identified Bas Duynisveld as a suitable candidate for this project. Bas was studying International Business at Tilburg University and spent the first half of 2006 investigating this issue.

"We are not all that sensitive to changes in interest rates"

One of the first things to be examined by Duynisveld was the relationship between Heijmans' interest rate exposure and the shareholder value. "Bas also analysed a number of other matters", explains Van Ommen. "The impact on public spending, for example. The government and other public authorities never react immediately. So you always have to take a sort of delayed response into account when looking at public spending." Taking all variables into consideration, Duynisveld was quick to produce an initial, clear conclusion. "It turned out we are not all that sensitive to changes in interest rates", Van Ommen laughs.

Van Ommen saw no reason in this initial outcome to halt the study. "On the contrary. We believe we have identified certain risks ourselves. Heijmans wants to focus more on cashflow. In order to do this, we need to know how much our cashflow is affected by external factors."

The model works

Duynisveld designed a Cashflow-at-Risk model in which he attempted to capture all variables. Explains Van Ommen: "Basically, the idea is that we understand >>

◀ From left to right: Dick van Ommen (Financial Director Heijmans), Laurens Tijdhof (manager Zanders) and Bas Duynisveld (consultant Zanders).

that if the interest rate is X in the future, we should be able to expect cashflow Y. Of course, there is always a certain degree of subjectivity in this. For this reason Bas familiarised himself with all aspects of the business and spoke at length with a whole range of people, both within and outside of Heijmans. This is important since the success of the study depends on having a clear understanding of the relationships between changes in interest rate levels and the business. How do the results of one business unit affect the results of another?”

“The model works,” says Van Ommen with satisfaction. “It gives a realistic picture and, moreover, is very applicable. So I’m positive about the results”, he explains. “The next step is to use a model like this to test certain business scenarios. Calculate the consequences of certain occurrences. What happens in a worst case scenario? To a certain extent you already know roughly what to expect. But a tool like this allows you to validate what would otherwise remain just a gut feeling.”

“It really was a matter of putting our feet up and discussing it.”

Added value

Van Ommen has since moved on to another position at Heijmans, and will no longer work on the Cashflow-at-Risk model. “That is now the responsibility of my successor. But if I were still in the same position, I would use it regularly since it then offers most added value. This model helps us to respond proactively and strategically to changes in interest rates. What’s more, we now have a much clearer picture of the risks we are exposed to and how we can manage those risks. Previously, we were rather concerned about whether a rise in interest rates would lead to problems with houses, financing or the government. We no longer have that concern.”

Van Ommen is very positive about the possibilities which Zanders offer students writing their final thesis prior to graduation. “It is very good to have a young, objective person who has not yet to be burdened with any prejudices or preconceptions examine matters like this. Naturally, in the knowledge that Zanders’s experts are always there to lend a helping hand.”

Bas Duynisveld has since graduated, obtaining a very good degree (scoring eight of ten on the scale employed by universities in the Netherlands and Belgium). He now works as a consultant at Zanders’ Brussels office. Corporate risk management is high up on the agenda of many organisations. Zanders has been engaged by many different companies for whom a similar approach to risk management can offer added value. <

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