

MARKS & SPENCER'S
GROUP TREASURER,
MIKE WALLACE, EXPLAINS
TO **GRAHAM BUCK** HOW
HIS SMALL TEAM HAS BEEN
ACTIVELY INVOLVED IN
THE RETAILER'S REVIVAL.

PHOTOGRAPHER: ROGER HARRIS

As usual, Marks & Spencer's Christmas TV ad campaign exudes style and confidence, yet a few years ago the future of one of the UK's favourite high street names was clouded by uncertainty. But after six years struggling to turn around its fortunes, chief executive Stuart Rose handed over a much better-performing business to his successor Marc Bolland this year.

Bolland has ambitious expansion plans for the next three years. The company will resume opening new stores and renovating existing outlets in the UK while starting a new phase of overseas expansion, focusing this time on China and India. Capital expenditure will be increased by around £300m in each year in a bid to lift annual revenues from just over £9bn to £11.5bn-£12.5bn by 2014.

LINK IN THE CHANGE CHAIN As group treasurer for nearly five years, Mike Wallace has been closely involved in the accelerating rate of change at M&S. He joined M&S shortly after Rose appointed Ian Dyson finance director. He immediately found the pace quicker than anything he had experienced, but other differences were less welcome.

"Sitting on my desk on my very first day were three months' worth of deal confirmations in triplicate, awaiting signature. Some processes were still very old fashioned and needed to be automated. Some people

reverted to form and became a management accountant."

He arrived at M&S early in 2006 – via Oracle, Samsung and supply chain group Ocean, where he spent 10 years – to a sharp cutback of its treasury department. "There had been a team of 12, but I was left with two, although I quickly added a deputy treasurer. We operated with a system that needed to be fully integrated and automated, and a priority to get the operational functions running smoothly."

By 2007 M&S was ready to tackle the funding of its pension scheme; an issue that Wallace says had not been seriously considered for some time, "although the £5.7bn liability exceeds any of our divisions, so it carries a significant risk."

M&S announced plans to eliminate a £704m deficit in its final salary scheme over a period of 15 years, to be accomplished by placing around £1.1bn of its property portfolio into a new partnership jointly owned with the pension fund. "A new area for treasury has been the management of the pensions issue, which has come to the fore with the valuation, funding recovery plan and liability hedging," Wallace adds. The partnership gives M&S flexibility without the need to inject cash into the fund, in full, upfront, so it can instead access it for investment. In May this year it agreed a further £800m funding package for the pension scheme through an additional £300m interest

Not a foot wrong

there also seemed to regard cash as limitless and without cost."

An early task was to update treasury policy. "M&S was changing rapidly, taking on more FX exposures and debt. And our rating had slipped back to BBB, a world away from its AAA of the 90s."

He adds that M&S has carried out a "fantastic amount" of funding in recent years, starting with the return of around £2bn to shareholders in 2004 as part of its defence against Philip Green's bid. "Since I joined, the company has undergone various funding updates and changed its product sourcing quite significantly.

"Many people haven't regarded us as having much FX exposure, but a major part of our sourcing is from overseas as we reduce our dependence on UK wholesalers." M&S now sources around 55% of its merchandise direct and there are plans to increase this to 65% by 2015. "So we've put in policies to deal with this change, which reflect our core competencies while helping people in the business to understand what's happening," says Wallace. "The capital structure is already very different and has required refinancing in the debt capital markets, accessing the US dollar and sterling bond markets."

ROUTE TO M&S Like many other company treasurers, Wallace says his career path could easily have taken a different direction.

"I come from a family of accountants, so when I left university in 1990 I was at first keen not to follow the same route. My first job was doing strategy work for International Computers (ICL), which then had yet to be acquired by Fujitsu," he recalls. "However, I soon

in the property partnership, the transfer of £124m of derivative asset value and £376m of cash over a 10 year period. "March 2009 was not the best time to perform a valuation as asset values had fallen sharply. It was a challenge to agree an appropriate valuation and recovery plan with the trustees that was reasonable but not over prudent."

REVIVING THE CASHFLOW Another policy change under Rose was reversing what Wallace admits was 20 years' under-investment. This revision will continue under Marc Bolland's plan to add £300m per year over the next three years to the company's £550m annual expenditure. "This will be key to the growth of the business," stresses

Wallace. "The added expenditure will see £600m focused on the UK with new stores opened and space added to the existing portfolio. Around £150m will be spent on the M&S Direct multichannel and a further £150m on international expansion. We are also looking at other parts of the world, but on a capital-light franchise basis."

All this additional capital expenditure is expected to come from operating cashflow. "We've looked at the emerging markets because of their fast-growing middle classes and we're developing our overseas internet," he adds.

Other treasury initiatives include a liability management exercise carried out at the end of 2009. "Although it's prudent and effective management of our liability profile it still comes at a price, so there needs to be careful consideration as to whether it represents good value," admits Wallace. The next bond to fall due for M&S is for

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£308m in November 2011, and he notes that both underlying yields and spreads remain attractive as demand exceeds supply.

"Our bank facility matures in 2013, so we will need to begin reviewing it late next year. We'll also need to consider whether we are appropriately supported by our bank group, although things tend to change very rapidly just now."

Treasury has also been involved in Rose's Plan A, a manifesto of 100 eco and environmental targets drawn up in 2007. "A number of our bank relationships, like with Rabobank, have congruence with Plan A, for example regarding solar initiatives and our sourcing of raw materials like cotton and coffee," says Wallace. "We have reached around 70 of our original targets, so earlier this year we raised the bar again and set the ambitious target to become the world's most sustainable retailer by 2015, adding 80 more commitments. Our involvement so far has been relatively limited, but we may get more involved in areas such as carbon credits, which is natural for treasury as it is consistent with other risks. Also, our Project 2020, focusing on systems and IT, will be accelerated so we can secure a further £50m of benefits."

RATIONALISATIONS OR

REVERSALS? Reports on Bolland's first major presentation as M&S chief last month suggested he was reversing some of his predecessor's initiatives, such as cutting back the non-M&S brands in its food halls and selling technology in store. Wallace says it's not a reversal, but a case of building on what they do well. Electrical items will be sold only online, as they tend to be low-margin items but occupy a lot

of space, which could be better used for growth areas.

"As for the economic outlook, our new CEO takes the view that a double-dip recession is unlikely – although nor does he anticipate significant economic growth over the next few years. So much of the vision focuses more on how we change than how the market does.

"As a treasury department, we're more commercially involved than before, and this extends to our supplier relationships. We have 2,000

suppliers in all and we're embarking on an extensive global supply chain finance programme for our general merchandise suppliers and are working with HSBC and RBS to implement this.

"So treasury is providing true value for the commercial business. It's no longer regarded as an 'ivory tower' as we can help mitigate risk, and our challenges will be more international in scope."

Wallace is also stepping up his work in the company's insurance and M&S Money operations with financial services partner HSBC.

Finally, does the group treasurer also shop at M&S? "Yes, today I'm pretty much 100% M&S clothed and particularly like the Timothy Everest suits," he confirms. "And I was a big fan of their food even before I joined the company."

What advice would he offer to anyone starting out in treasury? "I'd recommend getting their ACT qualifications as quickly as possible. You won't get on the interview list these days without them. Most of my team is qualified, with one still studying. I'm not yet an MCT, so that's something I'm aiming to tackle".

Graham Buck is a reporter on The Treasurer
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Quick-fire quotes

WORDS YOU MOST OFTEN SAY TO YOUR CFO? "Cash management and credit rating"

WORDS YOU MOST OFTEN SAY TO YOUR TEAM? "Never be satisfied with the norm."

DOES DOUBLE DIP RECESSION OR GROWTH LIE AHEAD? Neither – no double dip but not much growth either

DEBT OR EQUITY? Must be balanced, but now debt is attractive

FIXED OR FLOATING INTEREST RATE? Again needs to be balanced to your business, but fixed is very tempting right now

BIGGEST SUCCESS IN YOUR CAREER Successful conclusion of the 2009 pension valuation and funding plan

DEAL YOU ARE MOST PROUD OF Not so much a deal, but I'm very proud that M&S now has an efficient, well run and highly regarded treasury department that the business truly values

MOST VALUABLE PART OF THE ACT QUALIFICATIONS AMCT qualification. Essential core training

REASON FOR ATTENDING ACT CONFERENCE/EVENTS Mainly to network with treasury colleagues to understand issues first hand

PIECE OF TECHNOLOGY THAT IS ALWAYS WITH YOU Love gadgets so always have a BlackBerry and iPad to hand

Hair today

Michael Wallace confesses to a slightly unusual appearance this month with a temporary moustache: "Like many, I'm unshaved as I am participating in the annual Movember fundraising for prostate cancer support. Clearly, I didn't think about my interview with The Treasurer when I agreed to do Movember. But with over £1,000 in donations already, I really can't back down now."

