Bridging the divide

UTE WOLF, HEAD OF FINANCE MANAGEMENT OF METRO GROUP, TALKS TO **MICHELLE PERRY.**

PHOTOGRAPHER: ROGER HARRIS

Ute Wolf, Head of Finance Management of Metro Group, the world's third biggest international trading and retailing company, has just returned from a holiday in Budapest where, for her, Hungary's beauty was tinged with subtle regret that the signs of negligence from the communist era remain.

More than most, Wolf understands the continued disparities between the former communist countries; she hails from Halle, Handel's birthplace, once part of the German Democratic Republic (GDR). She now lives in Düsseldorf, one of Germany's most affluent, commercial cities and Metro's headquarters.

Still, development in East Germany has been slow going, to bring it anywhere near the prosperous levels of Western Germany. In contrast, however, Wolf's career in financial management – a discipline that barely existed in the ex-communist countries – has flourished.

Despite restricted entry to university in the former GDR, Wolf managed to secure herself a place to read mathematics. Her study choice wasn't based on a burning desire to become a financial manager, though. She chose mathematics to eschew the politics of the regime.

"If you studied economics then you had to do the history of the Communist party for the first two or three years. So I chose something more neutral without knowing what I would become," explains Wolf.

At 23 and in her final year of university Wolf witnessed the fall of the Berlin Wall in 1989, opening up only barely imagined career opportunities for the mathematics graduate.

After attending several graduate fairs, Wolf settled for a graduate training programme at Deutsche Bank, which offered her the opportunity to work with a multidisciplined team. Immediately it was clear that she was drawn to the world of capital markets. Her interest in this area led her to work in both the equities research department and later the global derivatives team at Deutsche Bank.

Armed with broad experience of capital markets she was hired five years later in 1995 to work at Deutsche Telecom, where together with a team, she helped develop a new finance function following the telecoms company's privatisation.

"We built everything from scratch at Deutsche Telecom with systems introduction and integration, risk management. I was very focused on risk management there. They had a lot of excess liquidity on the balance sheet at that time as well," says Wolf.

Two years later she became heavily involved with the company's flotation, adding yet another string to her bow. It was with this skills base and professional experience that she was hired at Metro in 2000.

Metro is the third largest retailer in the world with net sales of more than €56bn. It has a €13bn market capitalisation, equivalent to a FTSE30 company such as retailer GUS or satellite broadcaster BSkyB.

The German retailer divides its business into five divisions: cash and carry (wholesale), food retail (hypermarkets and food stores), non-food speciality centres (consumer electronic and home improvement), department stores and e-commerce, with 2,445 stores in 30 countries.

At Metro, Wolf has been able to employ her armoury of capital markets' knowledge and skills. As head of treasury, corporate finance and creditor relations, she is responsible for the whole of financing and risk management.

Compared to public companies in Germany, Metro has fared better than most during the difficult trading conditions of recent years. Wolf says that because of the retailer's international growth, the group has been able to create its own company cycle, which is less dependent on the home market.

Metro, however, recently posted lower than expected second-quarter operating profits, missing forecasts as its food and department store businesses suffered because of the continuing slump in consumer spending in Germany. But this was offset by strong growth in its foreign operations, especially eastern Europe.

Financing for growth and educating the

Eastern Europe expansion

As at the end of June 2005, Metro Group has operations in 2,445 locations worldwide. In its second quarter of 2005, 18 locations were newly opened, 14 of them by the sales divisions Metro Cash & Carry as well as Media Markt and Saturn.

The group extended its sales network by four locations – two stores in the Ukraine and one store each in Spain and Russia. Investments in international expansion and modernisation of the sales network increased in the second quarter 2005 to €195.7m.

In Poland and Turkey, hypermarket stores Real's sales volume grew 11.1% to €217.2m. On 28 July 2005, the first hypermarket was opened in Moscow. A further two stores are due to open this year in Russia. Real is also planning to enter Romania.

The group has earmarked capital for expenditure of around €1.9bn illustrating its determination to continue its international expansion, particularly with Metro Cash & Carry, Media Markt and Saturn. Metro plans to continue expansion of its Real and DIY centres Praktiker in eastern Europe.

In July 2005 the first Russian Real hypermarket was opened in Moscow, following the establishment of Metro Cash & Carry wholesaling in Russia.

Metro began doing business in eastern Europe in 1994 and today is active with its sales divisions in almost every eastern European country.

market are two areas where the treasurer has invested a great deal of time. Indeed establishing capital markets-based financing has been one of the most challenging projects she has worked on at Metro.

"We went out in a tough market ahead of our first bond issue, just ahead of the Ahold crisis when it was a negative equity market. So to go out and build trust that was difficult. At that time there were several downgrades, some double notch downgrades generally, but also in the retail sector. We really managed this well over the years," Wolf explains.

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In previous years, she says, the group was always lumped in with other retailers but "now if you look at our credit spread you can see how we stand out from other retailers. You have single A names, such as Tesco and Carrefour, then you have some distance, then there's us (Metro now boasts a 5-year credit span) and then there's more distance between us and the rest. That shows what we have done in our investor relations".

Since her involvement in treasury, Wolf has experienced a number of changes worldwide and within Europe that have greatly impacted on treasury.

"There haven't been drastic changes but some trends have affected us. The euro zone has brought a lot of advantages for euro zone companies. In cash management, it's much easier now to really concentrate cash in all the euro countries," she explains.

The corporate bond market in Germany has also matured a lot since she joined Metro, offering her alternative financing sources for the group.

"The bond market really formed from 1999 onwards. It wasn't there in such depth before. Metro had issued bonds before but they were much smaller in size," Wolf says.

Over the past two to three years advances in treasury software technology and banking relationship have also provided benefits to the treasurer.

She has dedicated a lot of time to the group's banking relationships following several difficult years in the banking sector in 2000/01. "That's when we realised we had to adjust our situation," says Wolf. "We now have 10 to 12 core banks. We want to have a long-term relationship. We don't want short-term, quick wins," she adds.

There is of course the need for international banks within the core group because of Metro's ambitious expansion plans and although unconcerned about future consolidation in the banking market she has taken steps to ensure that any future mergers or acquisitions among banks will not scupper the group's international growth.

"It's really important that we have a well-balanced group. There are changes in the banking environment, so this will protect us against any move that might happen," she says.

Although Wolf says they don't draw on many credit facilities available to them, the need to react to changes very quickly is vital for the group.

"We don't have high financing needs; we have more refinancing needs. Overall the group is able to grow without adding more debt," explains Wolf.

"We are committed to the bond market; it's very important to us and we do a lot of investor work. Every year we go into it with a bigger transaction. Equally we also look at the loan markets. That's to really make sure that we use every source; that the whole financing portfolio is balanced.

"Also early refinancing was a topic last year as prices have really developed. We always watch very closely what's happening and try to find a good window of opportunity to position the group in an optimal way," she adds.

But she warns against pre-financing too much. "There's always a cost involved, so you have to balance things carefully," says Wolf.

Right from the start of her career Wolf faced a huge challenge in adjusting from communism to capitalism. The irony is that her job and skills never existed under the former regime in which she spent her formative years.

She has also had to adapt fast to prove herself in a man's world. Competition in the retail sector at home and abroad is stiff and unlikely to ease off in the near future. The euro zone is shaky and financing could prove tougher. But as an adaptable, dynamic, multi-skilled financial professional, Wolf is unlikely to balk at these challenges.