

TREASURY & RISK

THE FUTURE OF FINANCE TODAY

BY RICHARD GAMBLE **CAREERS**

TREASURER CHARLES HOLLEY IS INTRODUCING NEW CASH MANAGEMENT SERVICES TO DELIVER ON WAL-MART'S PROMISE OF ALWAYS LOW PRICES

Steering A Giant

IN JANUARY 2007, Charles M. Holley Jr. was promoted to executive vice president of finance and treasurer of Wal-Mart Inc. In some ways, it was a logical progression for the veteran financial executive. His 13 years at Wal-Mart have seen an orderly sequence of promotions—starting as senior vice president and CFO of the international division, moving up to senior vice president and controller of the corporation and then to senior vice president of finance. But his new job has reshuffled Holley's portfolio of responsibilities in ways that move him away from the comfortable world of accounting and control he first entered 27 years ago as a CPA with Ernst & Young. Until now, Holley has been responsible at Wal-Mart for control and accounting, as well as tax and investor relations. Now, his mandate will be to run a complex treasury operation for a huge, dispersed cash-generating empire. He now must grapple with Wal-Mart's banks and investment bankers. But Holley is no stranger to challenges. Before Wal-Mart he was managing director for Tandy's European Memorex Consumer Product Division, as well as director of finance for its international activities. He received a BBA in accounting from the University of Texas at Austin and his MBA in finance from the University of Houston. Recently, Holley spoke with Treasury & Risk's senior contributing editor Richard Gamble about his new duties and plans for Wal-Mart's treasury.



T&R: How do you intend to approach cash forecasting and liquidity planning?

Holley: Well, cash forecasting is an art that challenges retailers because our business is seasonal, subject to economic cycles and even things like weather. Easter, for example, is a big factor in our sales and the date changes every year, so it's hard to use historical numbers. It's important to keep training our people to understand the quirks of our particular business. Our forecasts are a lot more accurate than they were five years ago, but we still have room for improvement, and we think that will come through the technology we're installing with

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• HOLLEY RODE A BULL IN A RODEO WHILE IN COLLEGE—
"I ALMOST KILLED MYSELF"

the newest version of the Quantum treasury workstation. We expect that to improve global functionality, sensitivity analysis and cash forecasting and make our treasury operation more efficient. We will benefit as our banks move closer to real-time reporting of receipts and disbursements.

T&R: Are there world-class treasuries that you use as models?

Holley: In January, when I took on the treasury responsibility, I went to New York and visited our bankers and asked them who was outstanding in treasury management. The name that kept popping up was Procter & Gamble. Also Lucent for cash pooling and Microsoft for cash investment. These seem to be the companies widely recognized as best-in-class. But I also get outside input from belonging to the T-30 group of treasurers from leading companies. We meet twice a year and share ideas.

Holley: Electronic check conversion was a home run for us. We're big fans of the POP program for converting checks at the point of purchase. We don't expect to use the new BOC program, which involves more paper handling. We like to eliminate as much paper handling as possible.

T&R: What improvements are you looking for from technology?

Holley: We make sure we have the best technology in the stores, of course, using point-of-sale equipment that can do the most efficient job of accepting credit and debit cards and converting checks. In treasury, we're installing the latest upgrade of the Quantum system, which we expect to give us better information and automation in our global operations. That should be completed in the next 12 months and make us more efficient. Beyond that, we expect to benefit as banks improve their real-time reporting of balances, receipts and disbursements.

Even if growth slows from 15% to 10%, we're still growing by \$30 billion a year—and it will make it more important to improve cash management

T&R: Wal-Mart seems to be moving from a rapid-growth cycle to a more modest one. Will that change your treasury strategy?

Holley: If our growth slows from 15% a year to 10% a year, as it seems to be doing, we're still growing by \$30 billion a year. That won't change treasury's mission—in fact, it will just make it even more important to drive for improvements in cash management.

T&R: Do you envision any major changes in your capital structure?

Holley: While our business generates a lot of cash, we have \$40 billion in debt, which puts us in the top five borrowers among nonfinancial companies and one of the very few industrials with a double A debt rating. Our debt-to-total-capital ratio is still under 40%. We need some leverage to generate the shareholder returns investors expect. And growth of \$30 billion a year means we'll need to keep increasing our funding. We're increasing our borrowing base in Europe and Asia. Of the \$2.5 billion in debt we issued in the first quarter, 25% of it went offshore.

T&R: What new cash management services have proved most beneficial to Wal-Mart?

T&R: How is your treasury organized?

Holley: We have a solid department that includes a capital markets team, headed by a senior vice president, which oversees daily liquidity and does our cash investing. And we have another team, headed by a vice president, which concentrates on the store-to-bank interface. These are seasoned people, but continuous improvement is expected, so we are always looking at how to apply best practices. That starts with our people. We need people who understand what drives retail sales, which can be pretty complex, and who can make adjustments quickly when something affects one of those drivers.

T&R: What is your approach to enterprise risk management?

Holley: Enterprise risk management is handled by the audit group, with support from treasury. I chair a risk management committee that recommends to the board what our policies should be. It includes all areas of finance, including audit. Most of our hedging activity deals with interest rate and foreign currency exposures and derivatives related to commodities like electrical energy.

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