

GROUP TREASURER AT SMITH & NEPHEW,
LUCY FULLER TALKS TO
JULIA BERRIS.



A specific approach

PHOTOGRAPHER: ROGER HARRIS

New challenges and using fresh ideas in treasury is something that Lucy Fuller, Group Treasurer at medical devices company Smith & Nephew, feels makes her job exciting and certainly keeps her on her toes.

Smith & Nephew has seen a great many changes in the last decade. The FTSE 100 group has disposed of 40% of its operations over the last six years, becoming a dynamic medical devices group which develops and markets advanced products.

Despite the disposals and a major share buyback, the group now has a market capitalisation and earnings per share over twice that in 2000.

A recent development for the company has been the conversion of the group's reporting currency to US dollars. Fuller says this was a project that required a lot of hard work and working across different functions.

"This was a major project for us in 2005 – effective for 2006 – and a lot of unforeseen issues arose during the planning," she explains. "In order to maintain the reserves of the top company in dollars, we changed its functional currency as well as the reporting currency. This has not only changed all of the hedging exposures but had a knock-on effect on the UK holding companies, resulting in a significant reorganisation of the group shareholding and group loan structures."

Fuller says that the decision was taken because the majority of the group's revenue, trading profits and operating assets are in US dollars, with a much smaller amount (10%) in sterling.

"Reporting in dollars removes that part of the volatility in the reported results which was solely due to currency movements," she says. "It also helps comparability with our peers, the majority of which are in the US.

"It also reduced the exposure of net assets to foreign exchange fluctuations relative to its capital base, removing the requirement for

Smith & Nephew: company profile

Smith & Nephew is a global medical devices company that aims to help people improve their lives. It was founded in 1856 by Thomas James Smith, who opened a chemist shop in Hull in that year. The company celebrates its 150th anniversary this year.

The company operates in 33 countries, employs more than 8,500 people and generates annual revenues of \$2.6bn, of which the US accounts for half. It aims to stay ahead in its markets through substantial investment in products, research and development, and close, long-term relationships with customers.

Smith & Nephew concentrates on four market areas: orthopaedic, reconstruction, orthopaedic trauma, endoscopy and advanced wound management.

The company's headquarters are in London, and three of its businesses are based in the US. The advanced wound management business is still run from Hull and its research centre is located in York.

This year's results are the first the company has released since it successfully denominated its share capital into US dollars. Revenue in the 2006 first-quarter results was up 6%, reaching \$643m. Trading profit was \$127m, a trading margin of 20%. Interest and finance income was \$4m.

The company also completed its disposal of its BSN medical joint venture with Beiersdorf, realising a gain of \$332m through the sale.

the complex net investment hedging programme previously undertaken by the group."

Smith & Nephew has a specific approach to its treasury function and responsibilities because of the manufacturing profile of its business and the way it operates in the UK, the US and Europe.

"The manufacturing is mainly in the US and UK with a small amount in Europe," says Fuller. "We then sell to our own subsidiaries worldwide which distribute into the local market.

"This makes us different to a lot of other companies. It gives us significant intra-group transactional foreign exchange exposures. We are most sensitive to dollar movements as the majority of our manufacturing is in the US."

In order to manage the exposures successfully, Fuller says that keeping processes simple and having a small and focused centralised treasury team is the key.

"The way we work at Smith & Nephew is to leave the subsidiaries with the day-to-day work and deal with the complex, more detailed work here in London," she explains. "We don't have any further treasury operations outside the UK, apart from a Treasury Manager

in the US who is responsible for managing the US cash sweep.

"We set the policy for the subsidiary foreign exchange programmes. We tell them what kind of risk they should cover and the hedging is done via a programme that we run from here."

The treasury team, based in the London office, is made up of three people: Fuller, Assistant Treasurer Tom Greene and Treasury Accountant Lesley Harland, all of whom have a history in treasury accounting.

Fuller says: "Lesley is responsible for both the day-to-day foreign exchange in addition to the UK cash management. Tom has a broader group responsibilities. As a small department it is vital that we work as a team."



“SMITH & NEPHEW TOOK RESPONSIBILITY FOR THE SARBANES-OXLEY PROCESS PRETTY MUCH IN-HOUSE, UNLIKE MANY OTHER COMPANIES, WHICH USED OUTSIDE CONSULTANTS. OUR VIEW WAS THAT TO GET VALUE OUT OF THE PROCESSES, WE HAD TO TAKE OWNERSHIP OF IT.”

After graduating with a maths degree from Bristol University, Fuller trained as a Chartered Accountant at Slater Chapman & Cooke (now Slater Maidment) before becoming Assistant Manager at Grant Thornton in 1984.

Fuller says: “After that, I worked for Cullen’s Stores for one year, following the takeover by a newly formed company. It was quite a turbulent time for the company, so my year there was very interesting.”

In 1987 Fuller joined a food import and distribution company where she was Financial Director and Company Secretary. Here she played an instrumental role in the flotation of the company.

“I learnt a great deal at Cullen’s and by doing the flotation,” she says. “There were a lot of challenges involved in both of these companies and this helped me immensely in my career and my personal development.”

Fuller joined Smith & Nephew in 1990 following a six-month break after the birth of her first child, and was the Group Financial Accountant until 1996 when she took up her current position as Group Treasurer.

She says: “I realised I had a steep learning curve in front of me, but I had the benefit of a very good support staff. It would have been difficult without them.

“I did the AMCT exams right away because I felt it was essential because of my lack of specific treasury experience. The course and exams helped me a lot, and provided me with useful contacts with other treasury professionals.”

Since then, Fuller has become more involved with the ACT’s

education programmes and governance, and joined the ACT Council in 2004.

She says: “I have found my work with the ACT both interesting and rewarding, and would recommend it to anyone interested in continuing development of the treasury profession.”

Having worked as Treasurer at Smith & Nephew for 10 years, Fuller believes that awareness of controls and the basic functions of treasury are very important elements of the job. Without a good understanding of how you apply and adhere to the basics, a treasury department is far more complicated to run.

She explains: “I think treasurers always have to keep in mind how to do the basics. You need to have everything locked down and in control before you can move on to other things.

“Treasury has gone through a time when there was a more accepted use of more complex type of instruments. I think this could be slowing down at present because of the changes in the accounting rules, which can add volatility in the reported results.”

The additional workload of international financial reporting standards and Sarbanes-Oxley over the last couple of years has added to the work of the Smith & Nephew treasury department.

Keeping sight of the basics has helped Smith & Nephew to deal with the pressures. As a company with a US and UK listing, Smith & Nephew had to respond to the requirements that Sarbanes-Oxley laid down quickly and efficiently.

Fuller says: “The process relating to SOX has been controlled by our internal review function. Smith & Nephew took responsibility for it pretty much in-house, unlike many other companies, which used outside consultants. Our view was that to get value out of the processes, we had to take ownership of it.

“When we first started the process it was very unclear what precisely was required. It has all come together now and we would have been ready to go forward with it had we needed to at the end of last year.”

Responding quickly and efficiently to challenges and issues is what makes a strong treasury department. Having been treasurer at Smith & Nephew for 10 years, Fuller has been through some exciting times.

She says: “The unpredictable nature of my job is something that I enjoy. Because of the variety and new challenges, it really doesn’t feel like I have been doing the same job for 10 years.

“Smith & Nephew is a great company to work for and values are very important to us. Our focus is on repairing and healing the human body and I am proud of what we do.”

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