



Investor Presentation

July – September 2018



Supporting healthcare
professionals for over 150 years

This document may contain forward-looking statements that may or may not prove accurate. For example, statements regarding expected revenue growth and trading margins, market trends and our product pipeline are forward-looking statements. Phrases such as "aim", "plan", "intend", "anticipate", "well-placed", "believe", "estimate", "expect", "target", "consider" and similar expressions are generally intended to identify forward-looking statements. Forward-looking statements involve known and unknown risks, uncertainties and other important factors that could cause actual results to differ materially from what is expressed or implied by the statements. For Smith & Nephew, these factors include: economic and financial conditions in the markets we serve, especially those affecting health care providers, payers and customers; price levels for established and innovative medical devices; developments in medical technology; regulatory approvals, reimbursement decisions or other government actions; product defects or recalls or other problems with quality management systems or failure to comply with related regulations; litigation relating to patent or other claims; legal compliance risks and related investigative, remedial or enforcement actions; disruption to our supply chain or operations or those of our suppliers; competition for qualified personnel; strategic actions, including acquisitions and dispositions, our success in performing due diligence, valuing and integrating acquired businesses; disruption that may result from transactions or other changes we make in our business plans or organisation to adapt to market developments; and numerous other matters that affect us or our markets, including those of a political, economic, business, competitive or reputational nature. Please refer to the documents that Smith & Nephew has filed with the U.S. Securities and Exchange Commission under the U.S. Securities Exchange Act of 1934, as amended, including Smith & Nephew's most recent annual report on Form 20-F, for a discussion of certain of these factors. Any forward-looking statement is based on information available to Smith & Nephew as of the date of the statement. All written or oral forward-looking statements attributable to Smith & Nephew are qualified by this caution. Smith & Nephew does not undertake any obligation to update or revise any forward-looking statement to reflect any change in circumstances or in Smith & Nephew's expectations.

Certain items included in 'trading results', such as trading profit, trading profit margin, tax rate on trading results, trading cash flow, trading profit to cash conversion ratio, EPSA and underlying growth are non-IFRS financial measures. The non-IFRS financial measures in this announcement are explained and reconciled to the most directly comparable financial measure prepared in accordance with IFRS in our Second Quarter and First Half 2018 Results announcement dated 26 July 2018.

100

Smith & Nephew is a diversified advanced medical technology business that **supports healthcare professionals** in more than 100 countries to improve the quality of life for their patients



FTSE100



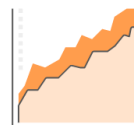
A constituent of the **UK's FTSE100**, our shares are traded in London and New York

Shares



S&N has paid a **dividend to shareholders** on its ordinary shares every year since 1937

\$4.8bn



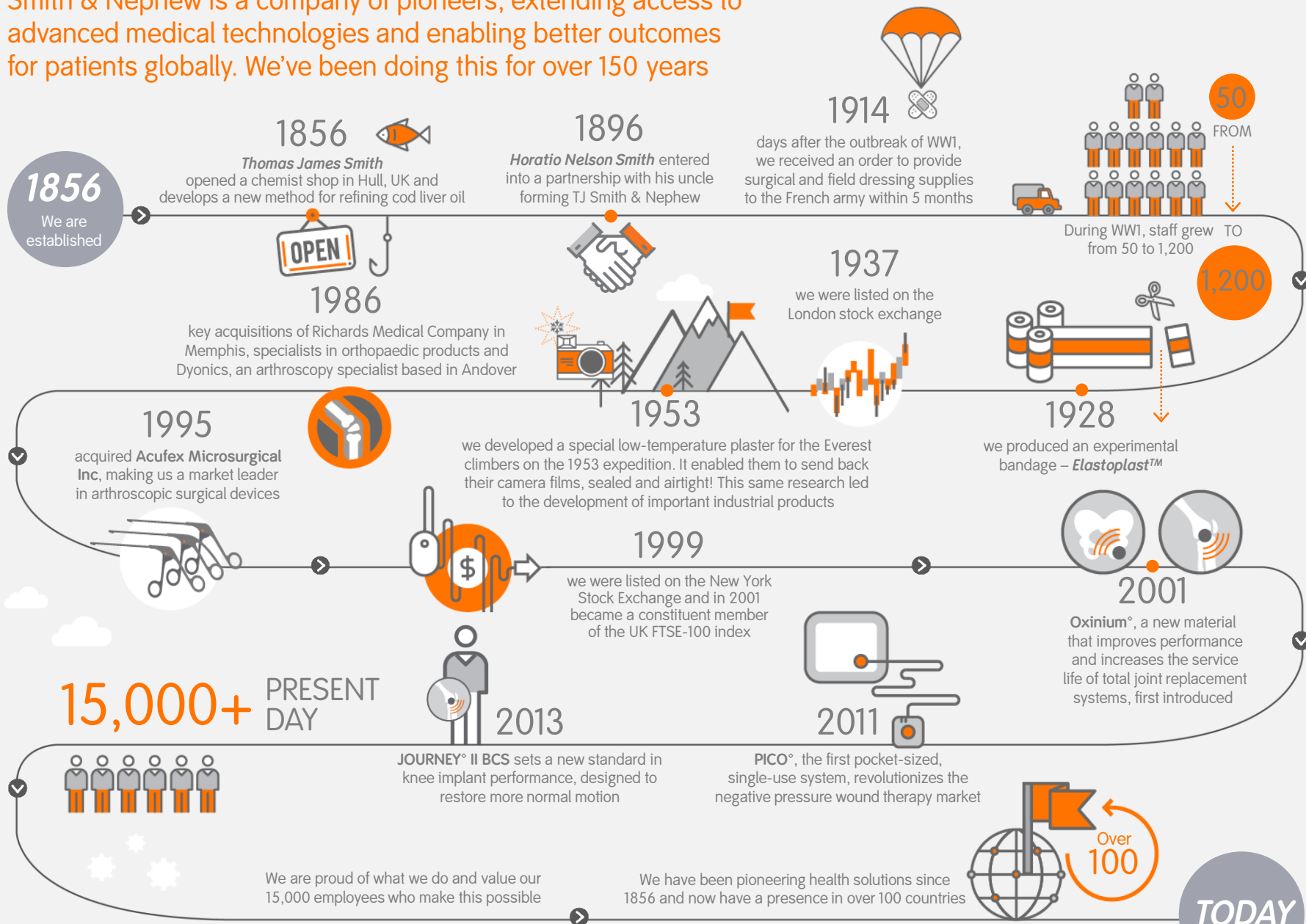
Annual sales in 2017 were **\$4.8 billion**

15,000



We have more than **15,000 employees** around the world

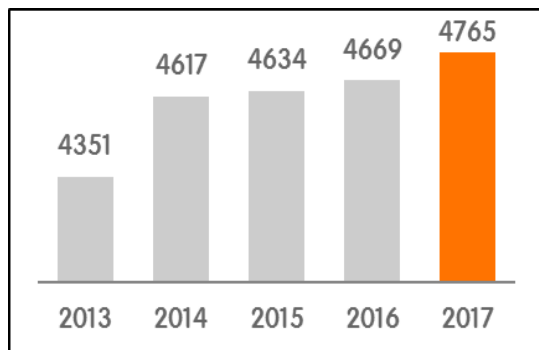
Smith & Nephew is a company of pioneers, extending access to advanced medical technologies and enabling better outcomes for patients globally. We've been doing this for over 150 years



Our performance

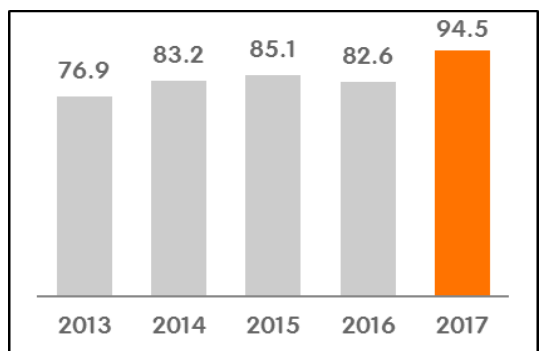
Revenue

\$4,765m +3%*



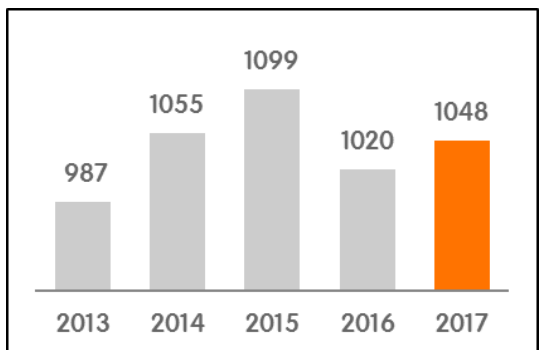
Adjusted earnings per share (EPSA)

94.5¢ +5%_{CAGR}



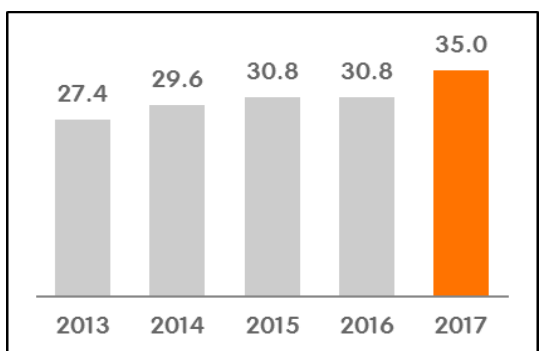
Trading Profit

\$1,048m 22.0% margin



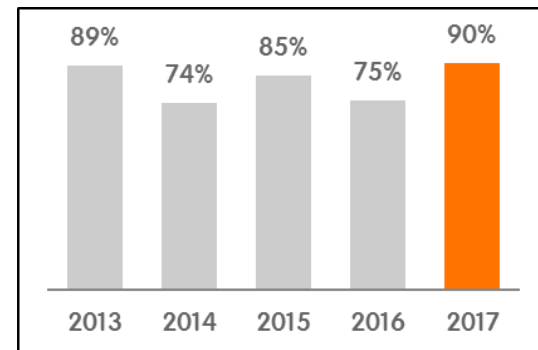
Dividend per share

35.0¢ +6%_{CAGR}



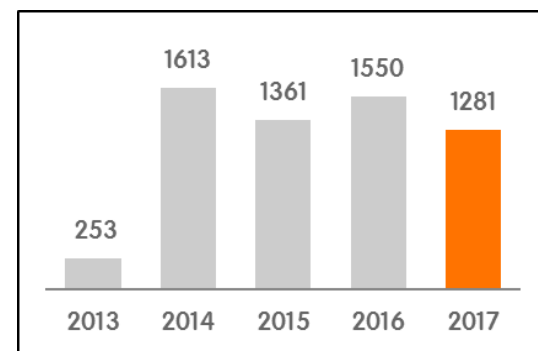
Trading cash conversion

90%



Net Debt

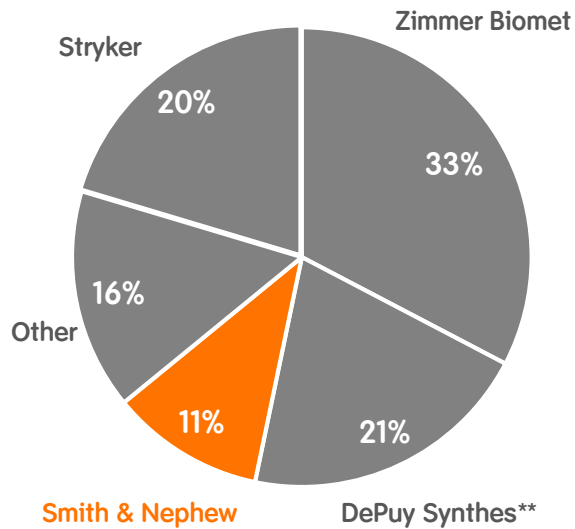
\$1,281m



* Underlying growth percentage after adjusting for the effect of currency translation, acquisitions and disposals.

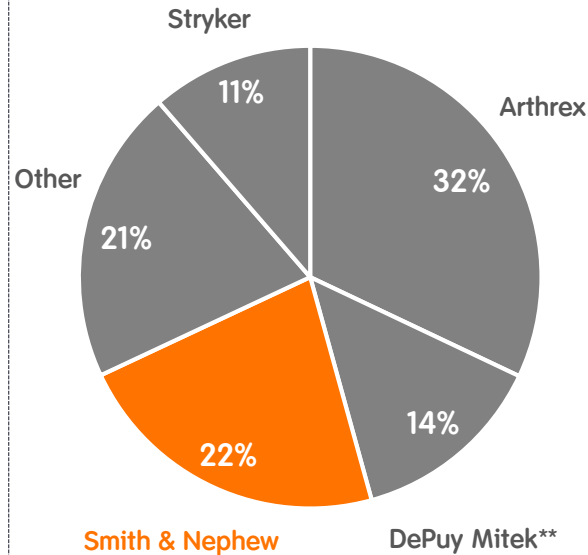
Our leading position

Hip & Knee Implant



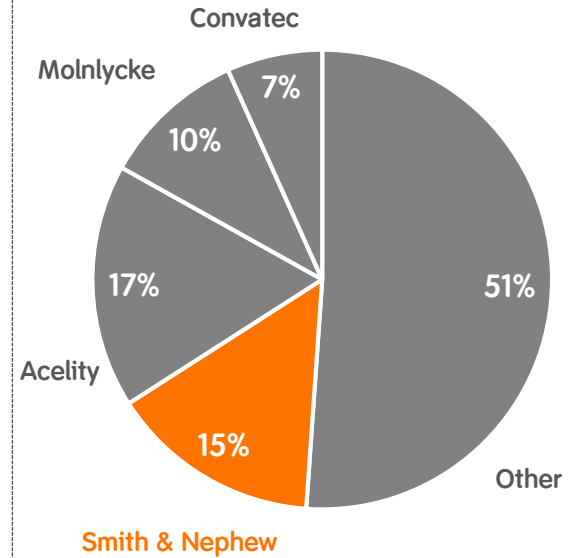
Market Size: **\$14.5bn**
Market growth: **2%**

Sports Medicine



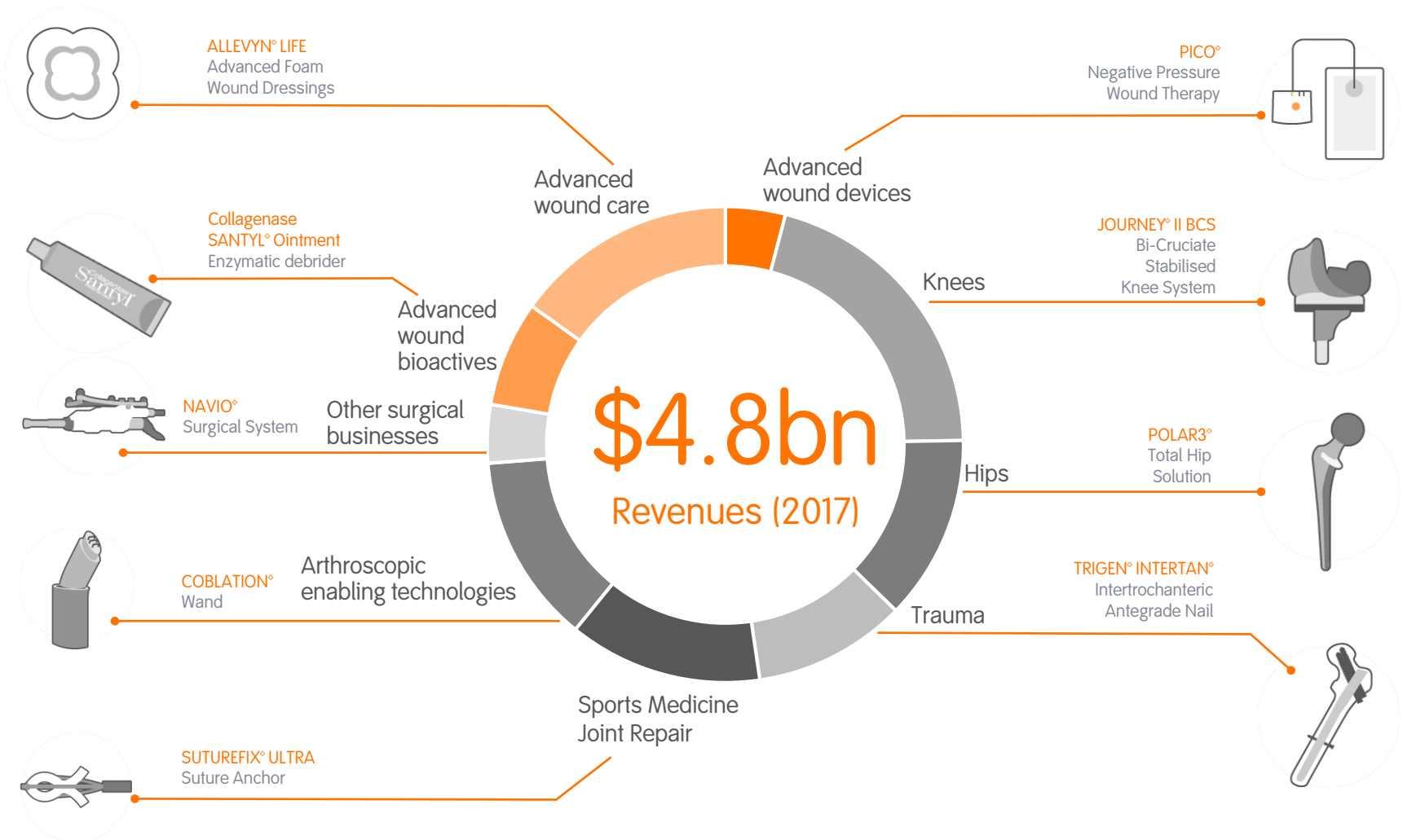
Market Size: **\$5.5bn**
Market growth: **6%**

Advanced Wound Management



Market Size: **\$8.5bn**
Market growth: **5%**

Our business: A portfolio medical device company





REGENETEN°



NAVIO°



REDAPT°



WEREWOLF°



JOURNEY° II BCS



ALLEVYN° LIFE



INTERTAN°



POLARSTEM°



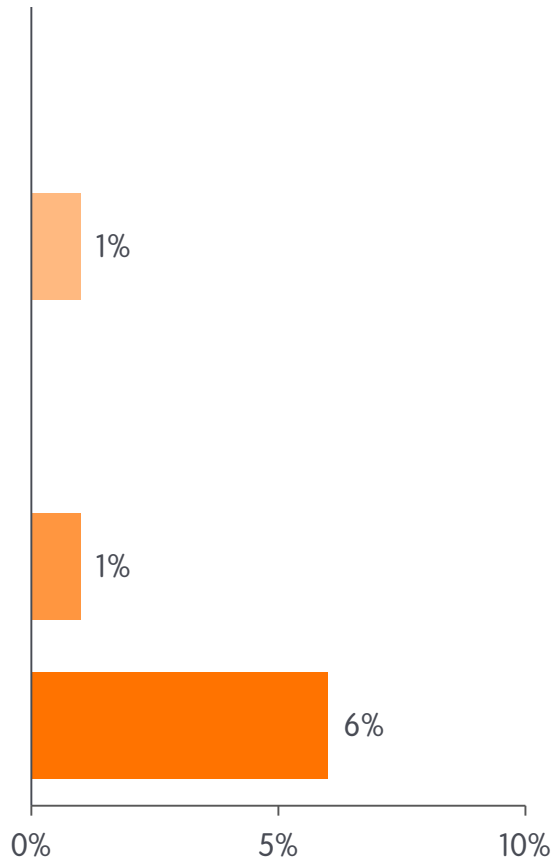
PICO° 7

Commercial model	<ul style="list-style-type: none">• Focus more on lead products• Provide leadership in each category• A more customer centric approach
Operating model	<ul style="list-style-type: none">• Faster, more streamlined decision making• First steps taken to new leadership structure• Take complexity and costs out – deliver on APEX

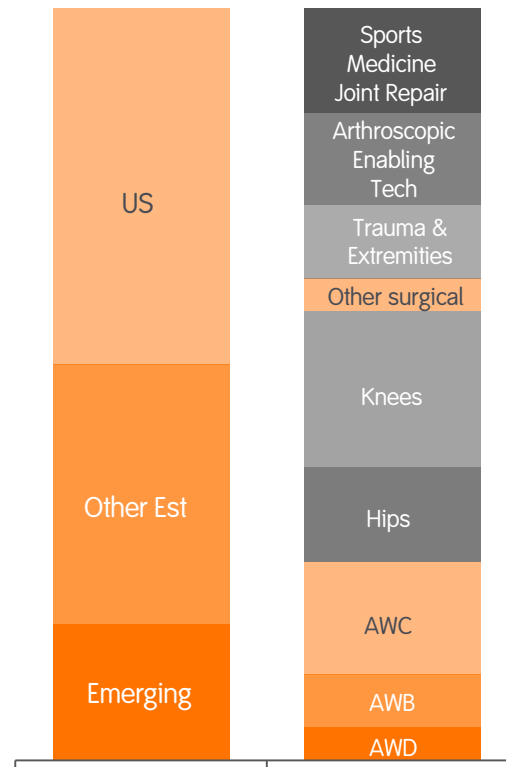
Creating a purpose-driven culture

Q2 revenue of \$1,245m; 4% reported growth, 2% underlying

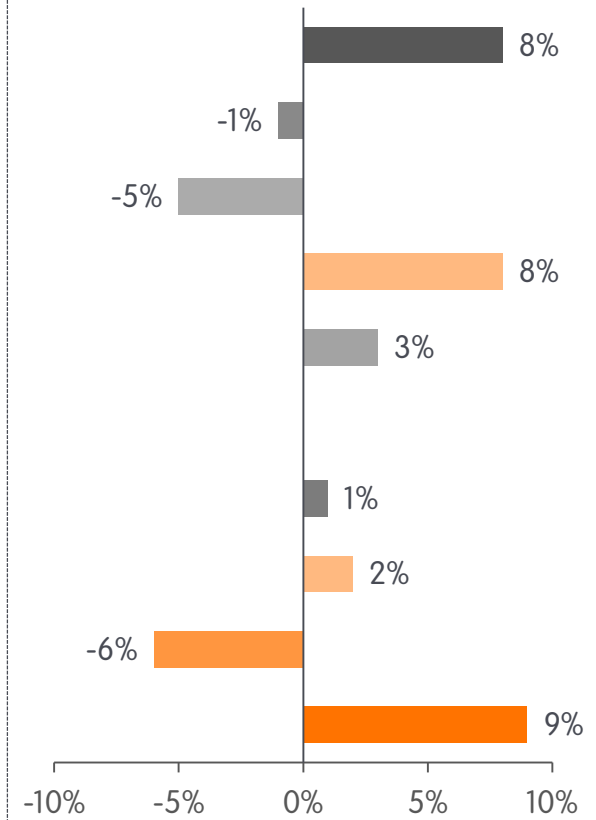
Geographical growth



Revenue split



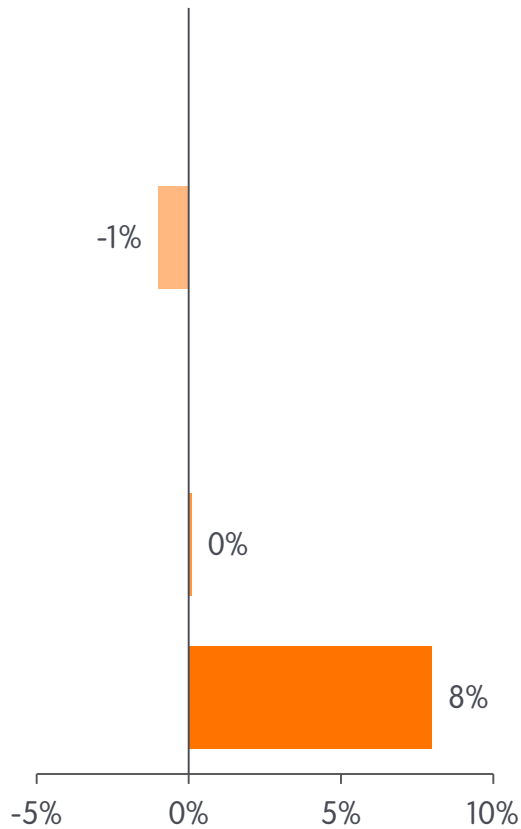
Product franchise growth



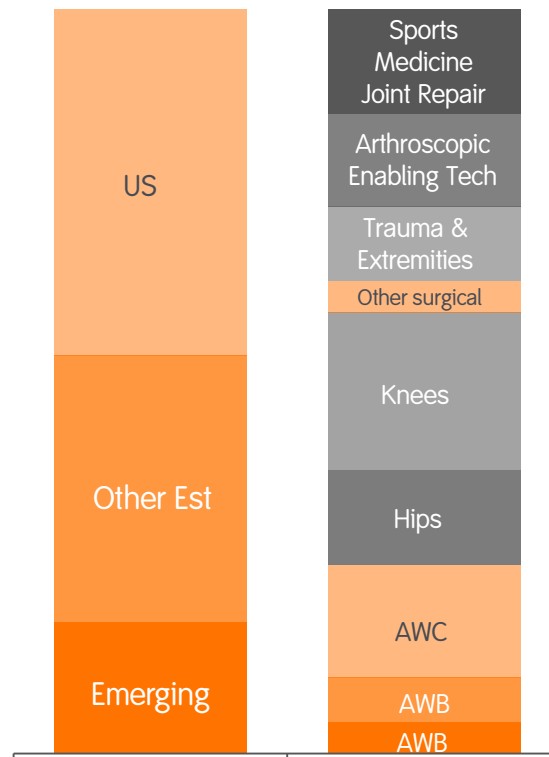
Other Est is Australia, Canada, Europe, Japan and New Zealand
 Other Surgical includes ENT and robotics sales (excluding implant sales)

H1 revenue of \$2,440m; 4% reported growth, 1% underlying

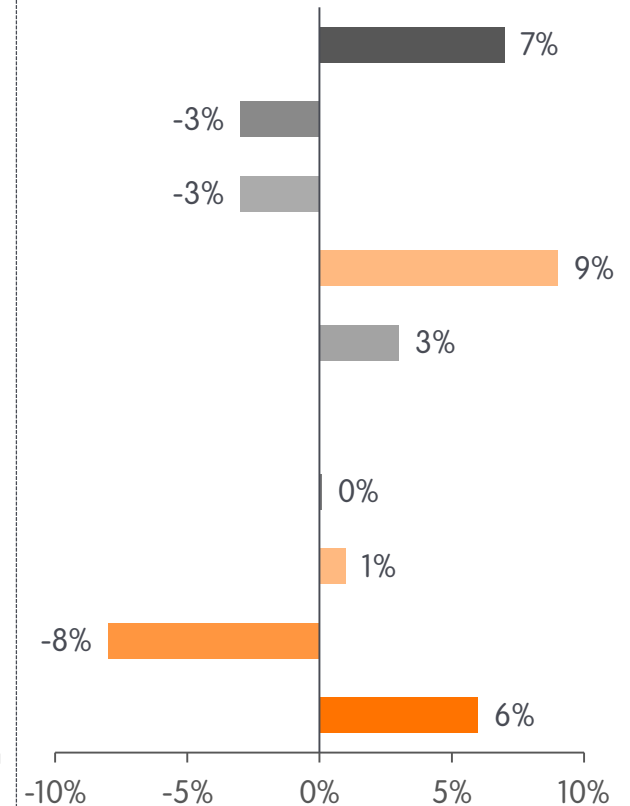
Geographical growth



Revenue split



Product franchise growth



'Other Est' is Australia, Canada, Europe, Japan and New Zealand
'Other Surgical' includes ENT and robotics sales (excluding implant sales)

All revenue growth rates in the presentation are on an underlying basis and without adjustment for number of selling days, unless otherwise stated

Manufacturing, Warehousing & Distribution

Simplify and streamline, while meeting future volume demand and maintaining focus on quality:

- rationalisation of manufacturing footprint
- multiple initiatives to simplify and optimise Supply Chain

General & Administration expenses

Leverage investments in systems and functions to improve efficiency:

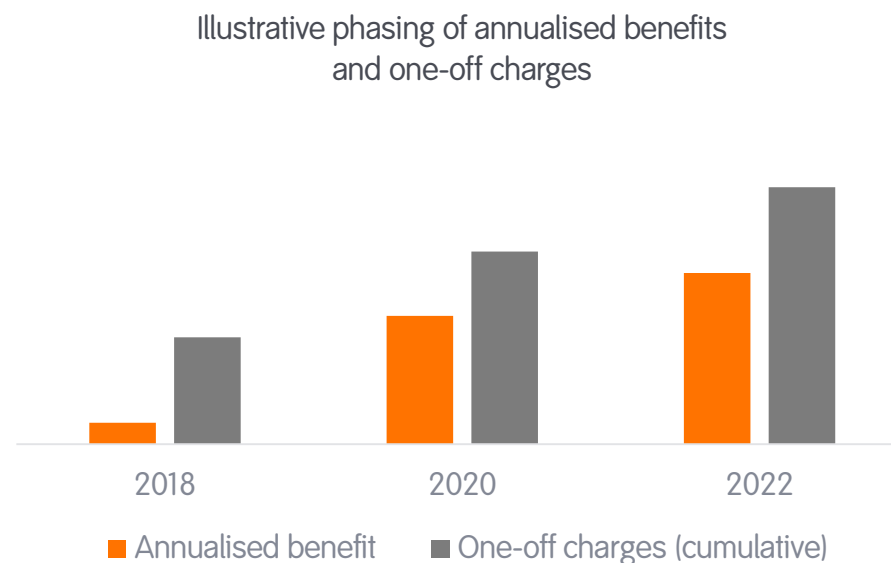
- expansion of our Global Business Services platform to accommodate relocations and insourcing of services
- further consolidation, relocation and standardisation of Global Functions
- rationalisation of legacy IT systems and 'cloud-first' strategy

Commercial effectiveness

Increase efficiency through sales force effectiveness while maintaining customer focus with dedicated sales teams:

- enhance segmentation and targeting
- increase customer facing time by reducing/simplifying non-selling tasks
- optimize resource allocation

- Benefits of **\$160m p.a.** by 2022
- Total one-off **costs (mainly cash) up to \$240m** (c.150% of annualised run-rate benefits)
- Period: **2018 – 2022**, with around 75% of benefits and >75% of costs by 2020
- Benefits **underpin medium-term margin guidance**
- **CAPEX ratio around 8-9%** of sales expected during the first two years



Sales growth	Underlying: 2% to 3% Reported ⁽¹⁾ : around 3% to 4%
Trading profit margin	At or above 2017 levels
Tax rate⁽²⁾:	20-21%

(1) Based on exchange rates prevailing on 20th July 2018

(2) Tax rate on trading result

Appendices

July 2018

Foreign exchange and other revenue impact	
Impact of translational FX* on revenue	+1.1%
Acquisition impact on revenue	+0.3%
Exceptional items	
Restructuring costs	c. \$100m
Acquisition and integration costs	c. \$5m
European Medical Device Regulation (MDR) compliance costs	\$20m-\$30m
Other	
Amortisation of acquisition intangibles	c. \$110m
Income from associates	c. \$5m
Net interest	\$51m - \$55m
Other finance costs	c. \$15m
Tax rate on trading result	20-21%

*Based on the foreign exchange rates prevailing on 20th July 2018

	Half year		
	2018 \$m	2017 \$m	Growth
Trading profit	507	493	3%
<i>Trading profit margin</i>	<i>20.8%</i>	<i>21.1%</i>	<i>(30bps)</i>
Acquisition related costs	(2)	(2)	
Restructuring and rationalisation	(58)	-	
Amortisation of acquisition intangibles	(57)	(65)	
Legal and other items	(18)	(12)	
IFRS Operating profit	372	414	(10%)
<i>Operating profit margin</i>	<i>15.3%</i>	<i>17.7%</i>	<i>(240bps)</i>

Franchise revenue analysis

	2017					2018		
	Q1	Q2	Q3	Q4	Full Year	Q1	Q2	
	Growth %	Growth %	Growth %	Growth %	Growth %	Growth %	Revenue \$m	Growth %
Sports Medicine, Trauma & OSB	4	3	2	2	3	1	502	2
Sports Medicine Joint Repair	7	5	8	6	6	6	173	8
Arthroscopic Enabling Technologies	(1)	(4)	(3)	(3)	(3)	(5)	153	(1)
Trauma & Extremities	5	7	(2)	5	4	(2)	122	(5)
Other Surgical Businesses	7	11	6	4	7	9	54	8
Reconstruction	3	2	4	4	3	0	414	3
Knee Implants	5	4	6	6	5	2	258	3
Hip Implants	0	(1)	1	1	0	(2)	156	1
Advanced Wound Management	1	3	2	0	2	(2)	329	1
Advanced Wound Care	1	2	(1)	(3)	0	0	187	2
Advanced Wound Bioactives	(8)	0	7	0	0	(12)	87	(6)
Advanced Wound Devices	16	14	8	14	13	2	55	9
Group	3	3	3	2	3	0	1,245	2

	2017					2018		
	Q1	Q2	Q3	Q4	Full Year	Q1	Q2	
	Growth %	Growth %	Growth %	Growth %	Growth %	Growth %	Revenue \$m	Growth %
Geographic regions								
US	1	2	2	1	2	(2)	590	1
Other Established Markets	1	(1)	0	(1)	0	(2)	429	1
Established Markets	1	1	1	0	1	(2)	1,019	1
Emerging Markets	12	13	9	14	12	9	226	6
Group	3	3	3	2	3	0	1,245	2

H1 trading income statement

	Half Year		
	2018 \$m	2017 \$m	
Revenue	2,440	2,336	1% underlying growth
Cost of goods sold	(651)	(603)	
Gross profit	1,789	1,733	
<i>Gross profit margin</i>	73.3%	74.2%	
Selling, general and admin	(1,168)	(1,133)	
Research and development	(114)	(107)	
Trading profit	507	493	
<i>Trading profit margin</i>	20.8%	21.1%	30 bps decline

	Half Year		Growth
	2018 \$m	2017 \$m	
Trading profit	507	493	3%
Net interest payable	(25)	(25)	
Other finance costs	(7)	(4)	
Share of results from associate	2	-	
Adjusted profit before tax	477	464	3%
Taxation on trading result	(96)	(88)	
Adjusted attributable profit	381	376	1%
Weighted average number of shares (m)	873	874	
Adjusted earnings per share ("EPSA")	43.7¢	43.0¢	2%
Earnings per share ("EPS")	31.4¢	37.0¢	(15%)

Tax rate⁽¹⁾:
20.1% (H1 2017: 19.0%)

Interim dividend:
14 cents (+14%)

(1) Tax rate on trading results

	Half Year	
	2018 \$m	2017 \$m
Trading profit	507	493
Share based payment	18	15
Depreciation and amortisation	171	154
Capital expenditure	(178)	(178)
Movements in working capital and other	(131)	(157)
Trading cash flow	387	327
<i>Trading cash conversion</i>	76%	66%
Restructuring, acquisition, legal & other	(147)	(67)
Net interest paid	(26)	(25)
Taxation paid	(95)	(62)
Free cash flow	119	173

Trading days per quarter

	Q1	Q2	Q3	Q4	Full Year
2016	64	64	63	60	251
2017	64	63	63	60	250
2018	63	64	63	61	251

- Year-on-year differences in the number of trading days typically impacts our surgical businesses in the Established Markets more than our wholesaler and distributor-supported businesses.
- We define trading days as week days adjusted for significant holidays in our principal countries.



Namal Nawana Chief Executive Officer

Namal joined the Board and was appointed Chief Executive Officer on 7 May 2018. He is based in Andover, US. Namal holds an Honours degree in mechanical engineering and a Master of Medical Science from the University of Adelaide, South Australia as well as an MBA from Henley Management College. Namal was Chief Executive Officer, President and a member of the Board of Directors of Alere, Inc. from October 2014 until October 2017, when Alere was acquired by Abbott Laboratories. Namal joined Alere as Chief Operating Officer in December 2012 before being named Interim Chief Executive Officer in July 2014. Before joining Alere, Namal spent more than 15 years at Johnson & Johnson in various leadership roles. He served as the Worldwide President of DePuy Synthes Spine, a Johnson & Johnson company, from February 2011 to November 2012. Prior to that he served in roles of increasing responsibility in Europe, Asia and North America. Namal was appointed to the Board of Directors of Hologic, Inc. in January 2018. Namal has a solid, international background in orthopaedics, sports medicine and spine, together with a track record of performance, execution and driving change. He is a truly global executive with wide international experience across a range of geographies and also has the experience as a CEO of a major US listed company in the healthcare sector where he turned the company round prior to its acquisition.



Graham Baker Chief Financial Officer

Graham joined the Board as Chief Financial Officer in March 2017. He holds an MA degree in Economics from Cambridge University and qualified as a Chartered Accountant and Chartered Tax Advisor with Arthur Andersen. In 1995, he joined AstraZeneca PLC where he worked for 20 years, holding multiple senior roles, including Vice President, Finance, International (2013-2015) with responsibility for all emerging markets, Vice President, Global Financial Services (2011-2013) and Vice President Finance & Chief Financial Officer, North America (2008-10). Most recently, Graham was Chief Financial Officer of generic pharmaceuticals company Alvogen. Graham has deep sector knowledge and has had extensive exposure to established and emerging markets which is extremely relevant to his role at Smith & Nephew. He has a strong track record of delivering operational excellence and has relevant experience across major finance roles and geographic markets, leading large teams responsible for significant budgets.

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