



Investor Presentation January – March 2019

Forward looking statements and non-IFRS measures

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 Fourth Quarter and Full Year 2018 Results announcement dated 7 February 2019.

100

Smith & Nephew is a global Medical Device portfolio company, that has been trading for over 160 years, and operates in more than 100 countries

FTSE100

A constituent of the UK's FTSE100, with ADRs traded on the New York Stock Exchange

Shares

S&N has a progressive dividend policy, and has paid a dividend every year since 1937

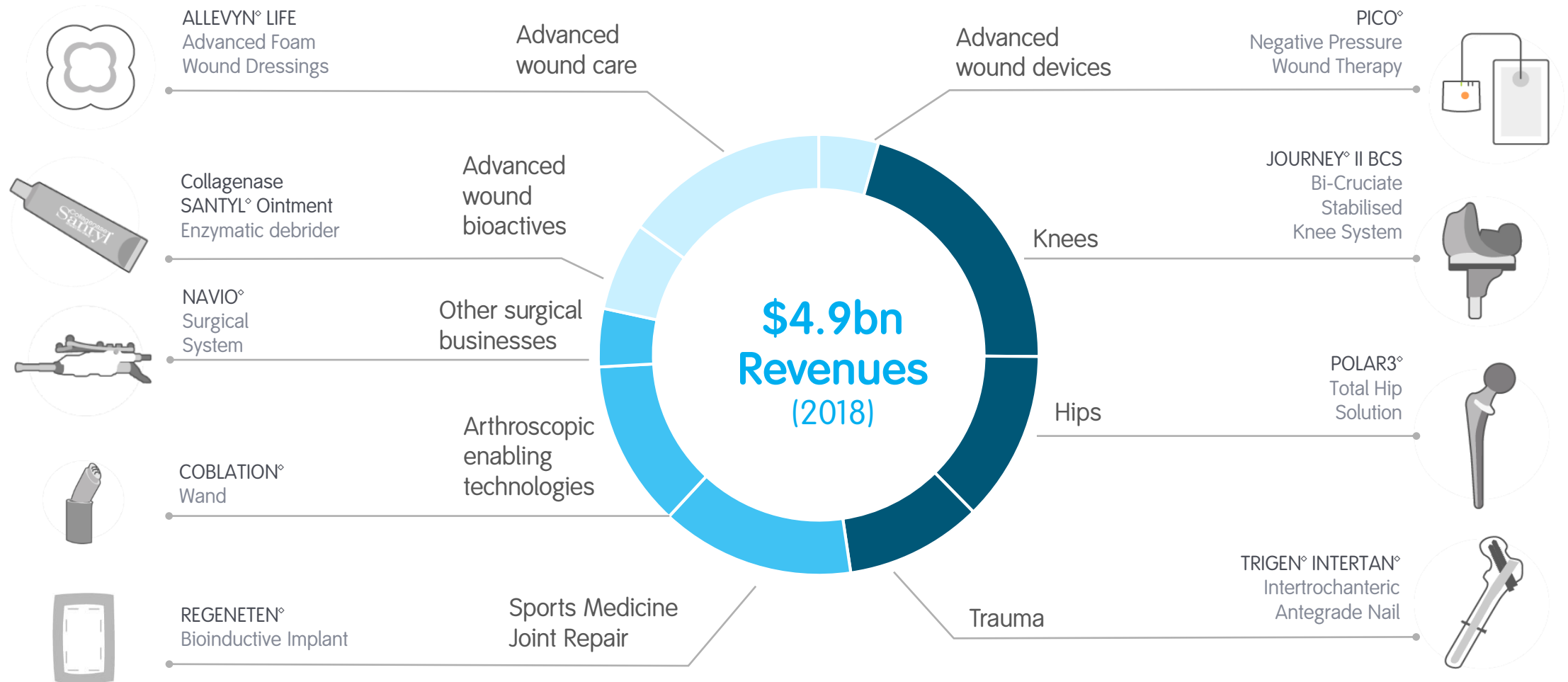
\$4.9bn

Annual sales in 2018 were \$4.9 billion

~16,500

We have around 16,500 employees globally

A portfolio medical device company

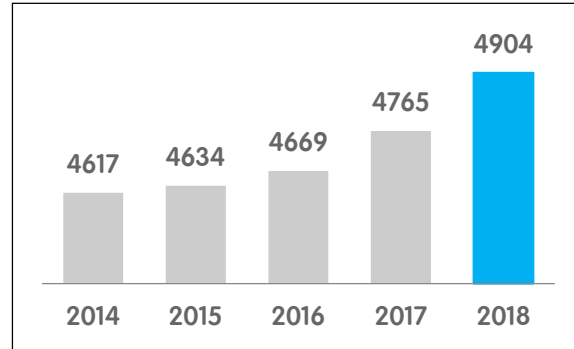


Our performance

Revenue

\$4,904m

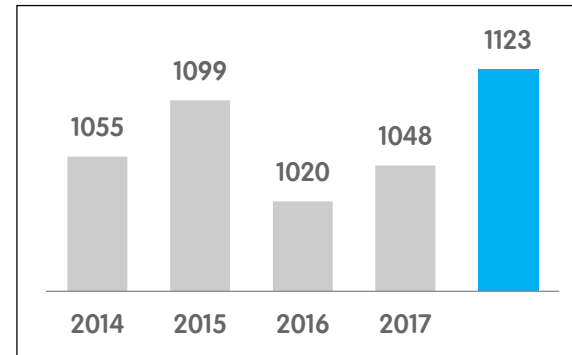
+2%*



Trading Profit

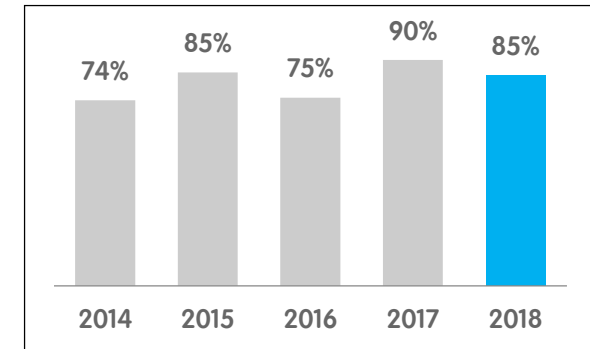
\$1,123m

22.9% margin



Trading cash conversion

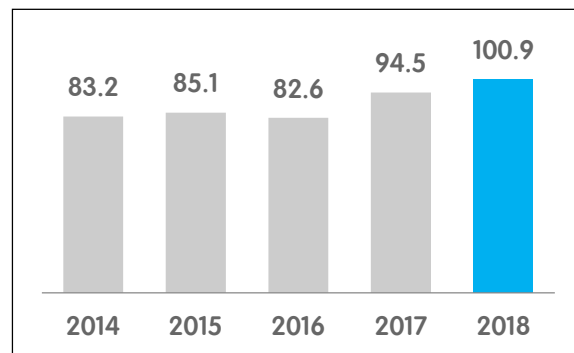
85%



Adjusted earnings per share (EPSA)

100.9¢

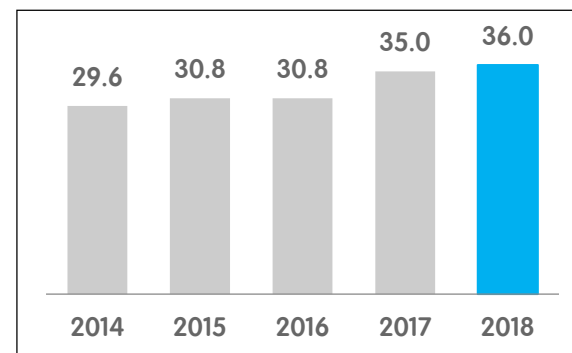
+5%_{CAGR}



Dividend per share

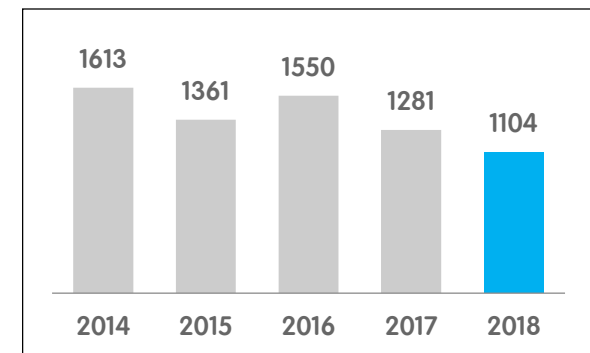
36.0¢

+5%_{CAGR}



Net Debt

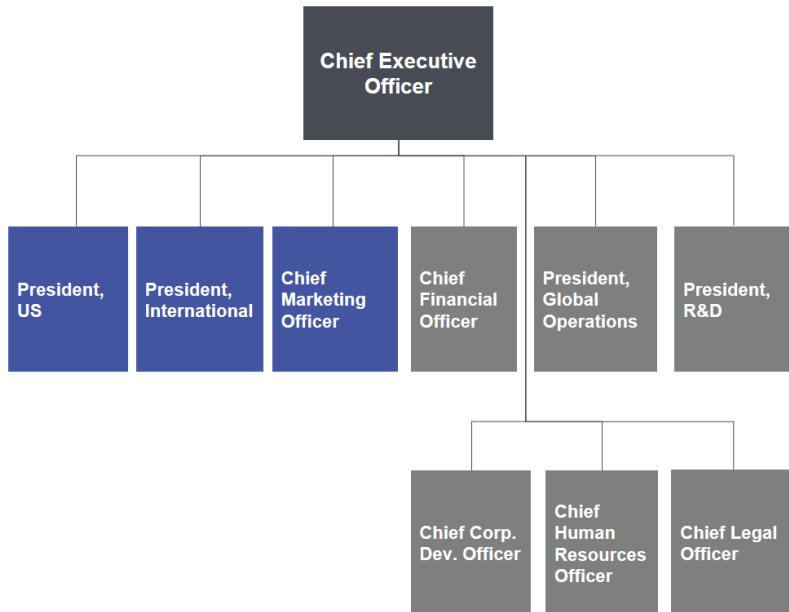
\$1,104m



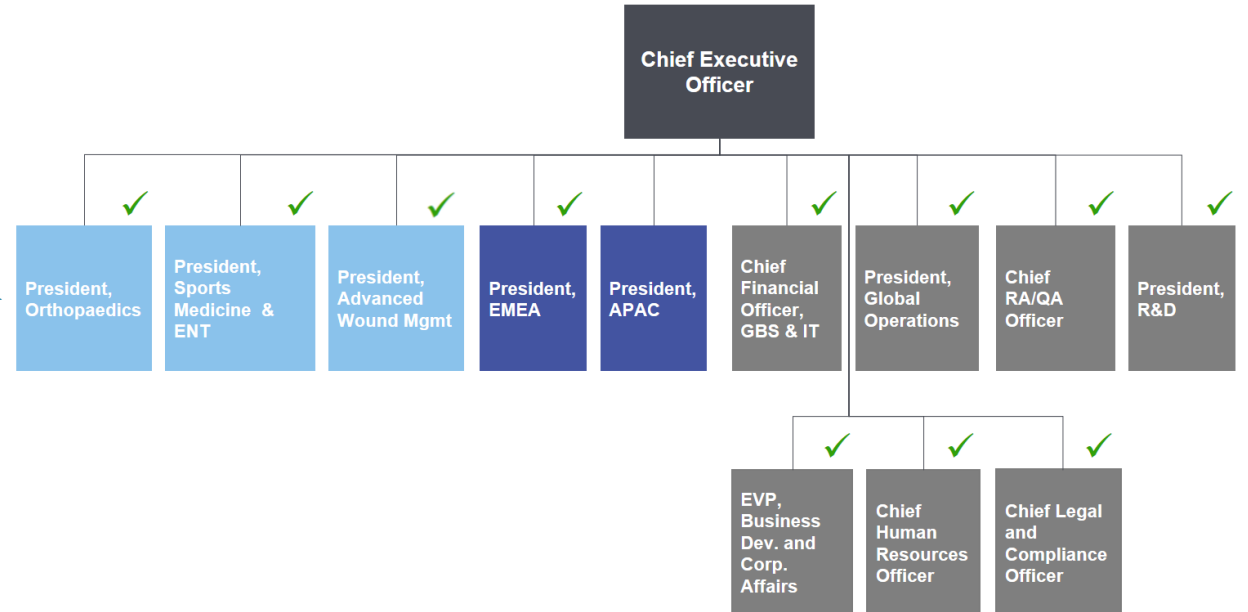
* Underlying growth percentage after adjusting for the effect of currency translation, acquisitions and disposals.

New commercial model: creation of global franchises

Old model:
Three generalist commercial leaders ✓

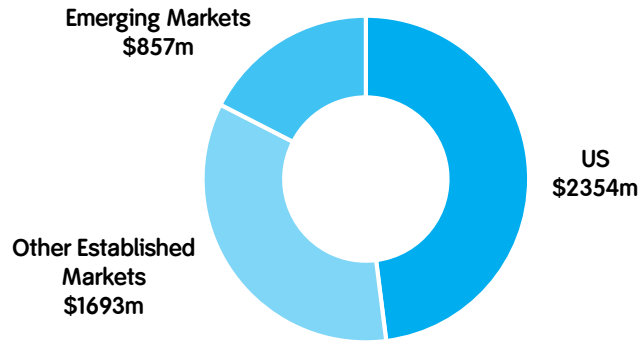


New model:
Three specialist franchise presidents

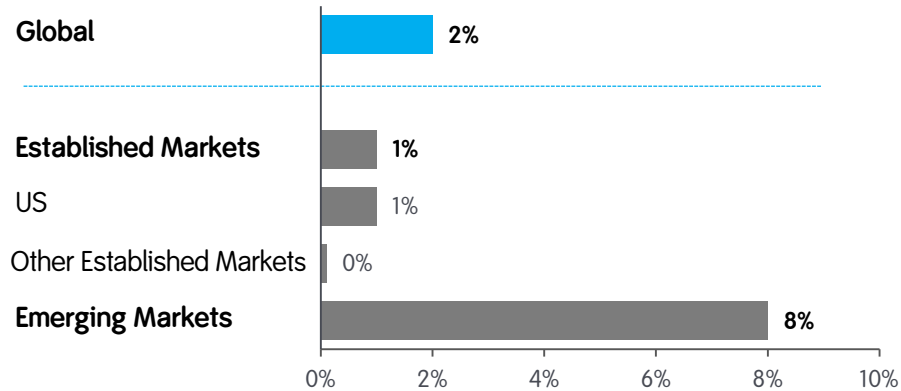


FY 18 revenue, \$4,904m, 2% underlying, 3% reported

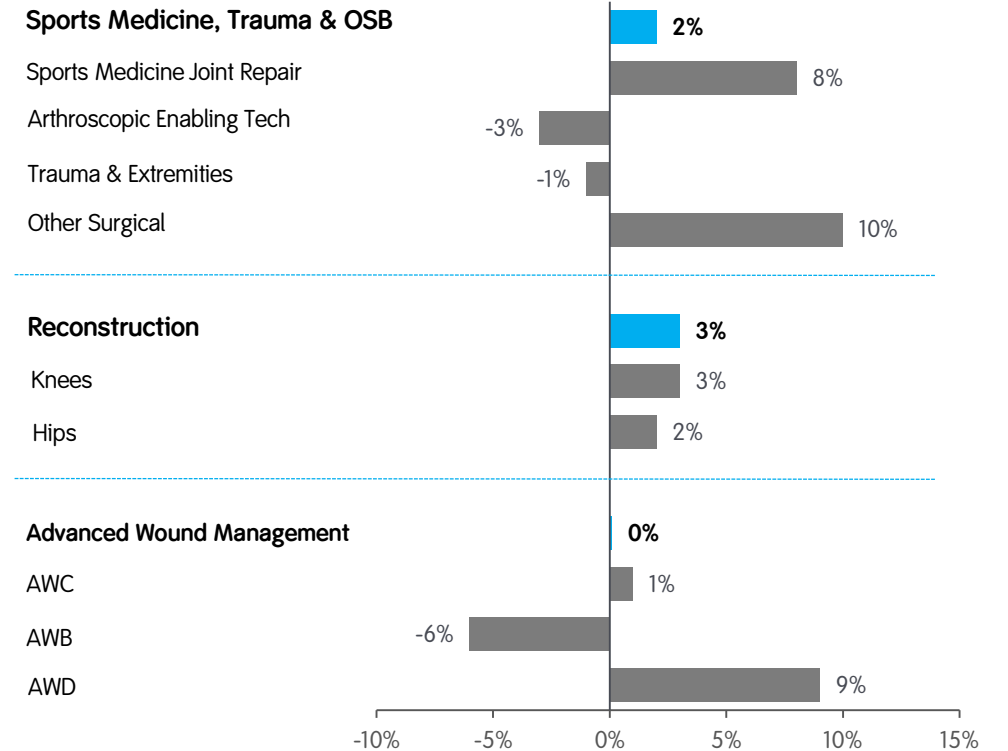
Revenue split



Geographical growth

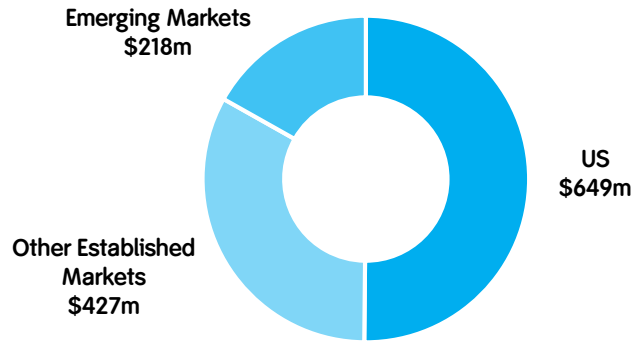


Product franchise growth

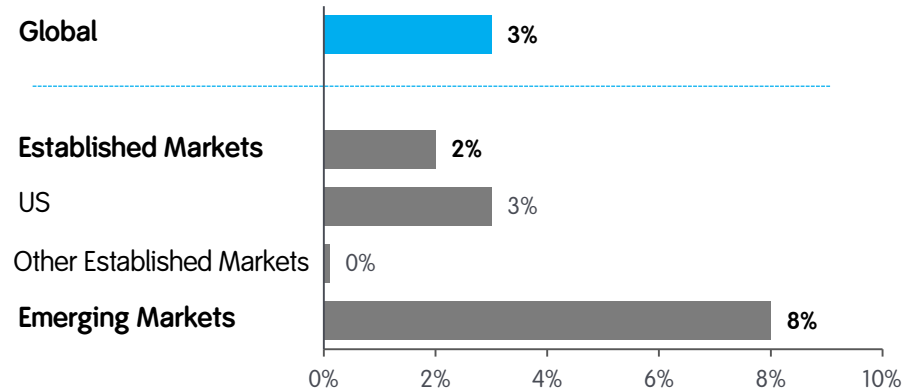


Q4 revenue, \$1,294 m, 3% underlying, 1% reported

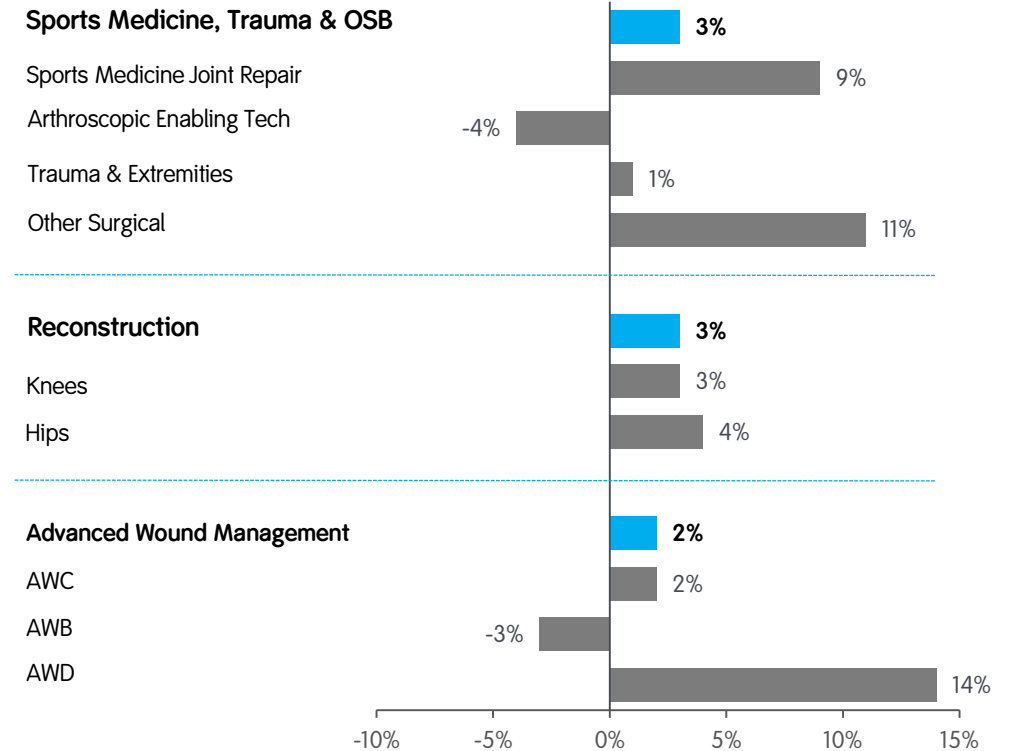
Revenue split



Geographical growth



Product franchise growth



Life Unlimited

Care

A culture of empathy and understanding for each other, our customers and patients

Collaboration

A culture of team, based on mutual trust and respect

Courage

A culture of continuous learning, innovation and accountability

Strategic imperatives for the company

Grow

Together

Effectively

1



Achieve the full potential of our portfolio

2



Transform the business through enabling technologies

3



Expand in high-growth segments

4



Strengthen talent and capabilities

5



Become the best owner

- 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**

2019	Sales growth: Underlying: 2.5% to 3.5% Reported: 1.8 to 2.8 ⁽¹⁾	Trading profit margin: 22.8 to 23.2%	Tax rate: 19% to 21% ⁽²⁾
Medium term	Sales growth: Consistent growth above market	Trading profit margin: Ongoing improvement	Tax rate: 19% to 21% ⁽²⁾

⁽¹⁾ Based on the foreign exchange rates prevailing on 1 February 2019

⁽²⁾ Tax rate on trading result

Full year trading income statement

	Full Year	
	2018 \$m	2017 \$m
Revenue	4,904	4,765
Cost of goods sold	(1,294)	(1,248)
Gross profit	3,610	3,517
<i>Gross profit margin</i>	73.6%	73.8%
Selling, general and admin	(2,250)	(2,246)
Research and development	(237)	(223)
Trading profit	1,123	1,048
<i>Trading profit margin</i>	22.9%	22.0%

2% underlying growth

+90bps growth

~\$60m of APEX savings in 2018 trading profit

Full year EPSA and EPS

	Full Year		
	2018 \$m	2017 \$m	Growth
Trading profit	1,123	1,048	7%
Net interest payable	(51)	(51)	
Other finance costs	(16)	(7)	
Share of results from associate	(6)	6	
Adjusted profit before tax	1,050	996	5%
Taxation on trading result	(169)	(170)	
Adjusted attributable profit	881	826	7%
Weighted average number of shares (m)	873	874	
Adjusted earnings per share ("EPSA")	100.9¢	94.5¢	7%
Earnings per share ("EPS")	76.0¢	87.8¢	(13)%
Dividend per share	36.0¢	35.0¢	3%

2018 tax rate: 16%
including one-off credits

Full year cash flow

	Full Year	
	2018 \$m	2017 \$m
Trading profit	1,123	1,048
Share based payment	35	31
Depreciation and amortisation	335	320
Capital expenditure	(347)	(376)
Movements in working capital and other	(195)	(83)
Trading cash flow	951	940
<i>Trading cash conversion</i>	<i>85%</i>	<i>90%</i>
Restructuring, acquisition, legal & other	(190)	(43)
Net interest paid	(52)	(48)
Taxation paid	(125)	(135)
Free cash flow	584	714

Guidance	February 2019
Foreign exchange and other revenue impact	
Impact of translational FX on revenue ⁽¹⁾	-0.8%
Acquisition impact on revenue	+0.1%
Non-trading items	
Restructuring costs	c. \$100-120m
Acquisition and integration costs	c. \$5m
European Medical Device Regulation (MDR) compliance costs	c. \$60m
Other	
Amortisation of acquisition intangibles	c. \$110m
Income from associates	c. \$5m
Net interest	\$45m - \$50m
Other finance costs	c. \$15m
Tax rate on trading result	19%-21%

⁽¹⁾ Based on the foreign exchange rates prevailing on 1 February 2019

Full Year IFRS reconciliation

	Full Year		
	2018 \$m	2017 \$m	Growth
Trading profit	1,123	1,048	7%
<i>Trading margin</i>	<i>22.9%</i>	<i>22.0%</i>	<i>+90bps</i>
Acquisition related costs	7	10	
Restructuring and rationalisation	(120)	-	
Amortisation of acquisition intangibles	(113)	(140)	
Legal and other items	(34)	16	
IFRS Operating profit	863	934	(8)%
<i>Operating margin</i>	<i>17.6%</i>	<i>19.6%</i>	<i>(200)bps</i>

Franchise revenue analysis

	2017					2018					
	Q1	Q2	Q3	Q4	Full Year	Q1	Q2	Q3	Q4	Full Year	
	Growth	Growth	Growth	Growth	Growth	Growth	Growth	Growth	Growth	Revenue	Growth
	%	%	%	%	%	%	%	%	%	\$m	%
Sports Medicine, Trauma & OSB	4	3	2	2	3	1	2	4	3	1,999	2
Sports Medicine Joint Repair	7	5	8	6	6	6	8	8	9	697	8
Arthroscopic Enabling Technologies	(1)	(4)	(3)	(3)	(3)	(5)	(1)	(2)	(4)	600	(3)
Trauma & Extremities	5	7	(2)	5	4	(2)	(5)	3	1	493	(1)
Other Surgical Businesses	7	11	6	4	7	9	8	12	11	209	10
Reconstruction	3	2	4	4	3	0	3	4	3	1,630	3
Knee Implants	5	4	6	6	5	2	3	4	3	1,017	3
Hip Implants	0	(1)	1	1	0	(2)	1	4	4	613	2
Advanced Wound Management	1	3	2	0	2	(2)	1	1	2	1,275	0
Advanced Wound Care	1	2	(1)	(3)	0	0	2	1	2	740	1
Advanced Wound Bioactives	(8)	0	7	0	0	(12)	(6)	(7)	(3)	320	(6)
Advanced Wound Devices	16	14	8	14	13	2	9	11	14	215	9
Group	3	3	3	2	3	0	2	3	3	4,904	2

Regional revenue analysis

	2017					2018						
	Q1	Q2	Q3	Q4	Full Year	Q1	Q2	Q3	Q4	Full Year		
	Growth	Growth	Growth	Growth	Growth	Growth	Growth	Growth	Growth	Revenue	Growth	
	%	%	%	%	%	%	%	%	%	\$m	%	
Geographic regions												
US	1	2	2	1	2	(2)	1	4	3	2,354	1	
Other Established Markets	1	(1)	0	(1)	0	(2)	1	(1)	0	1,693	0	
Established Markets	1	1	1	0	1	(2)	1	2	2	4,047	1	
Emerging Markets	12	13	9	14	12	9	6	10	8	857	8	
Group	3	3	3	2	3	0	2	3	3	4,904	2	

Trading days per quarter

	Q1	Q2	Q3	Q4	Full Year
2017	64	63	63	60	250
2018	63	64	63	61	251
2019	63	63	63	62	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 weekdays adjusted for significant holidays in our principal countries.

