

S+N

**Investor Presentation
July – September 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. The terms 'Group' and 'Smith+Nephew' are used for convenience to refer to Smith & Nephew plc and its consolidated subsidiaries, unless the context requires otherwise.

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 Results announcement dated 31 July 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

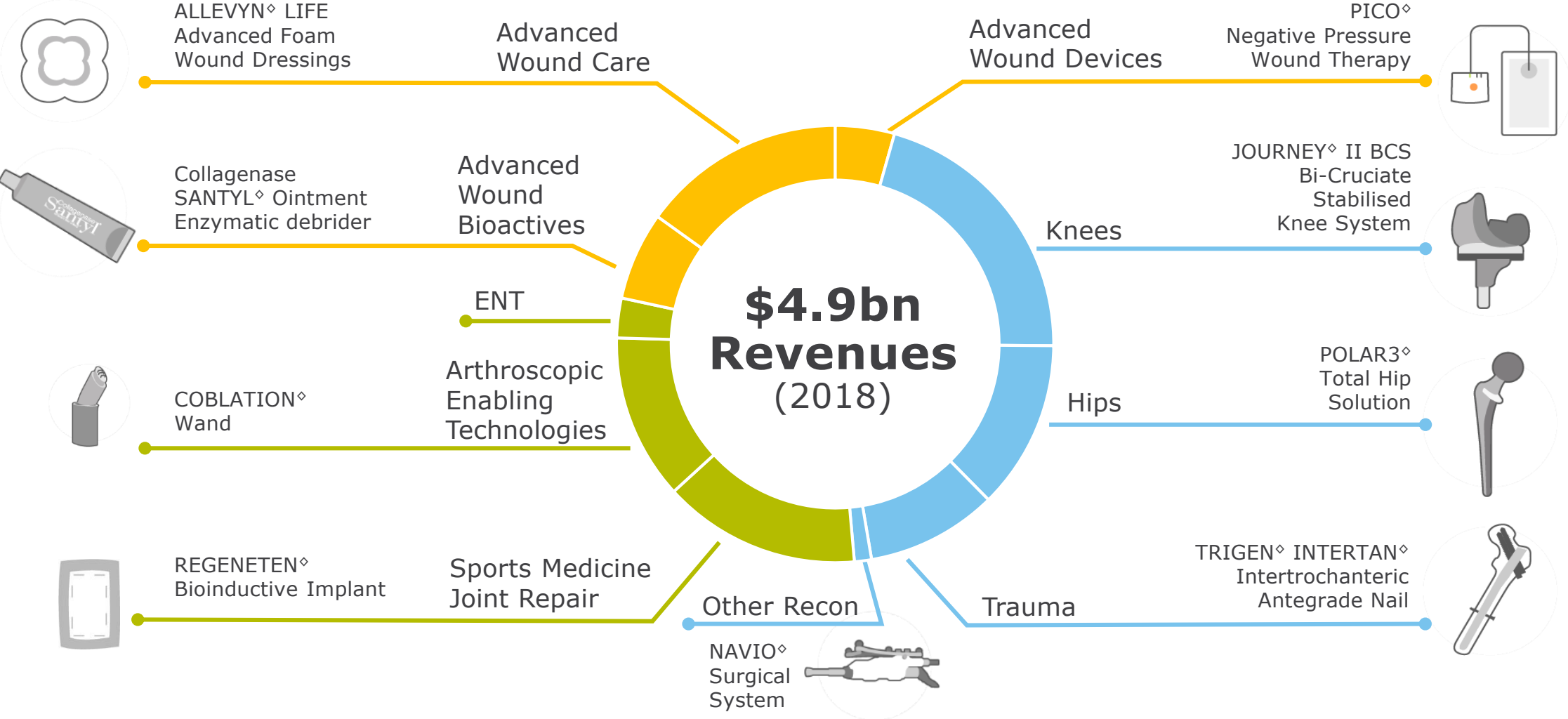
\$4.9bn

Annual sales in 2018 were \$4.9 billion

~16,500

We have around 16,500 employees globally

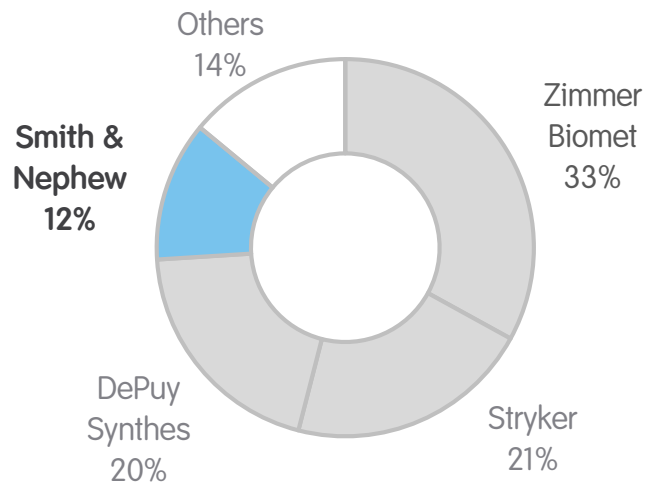
A portfolio medical device company



Leading positions in stable growing markets

Hip & Knee Implants

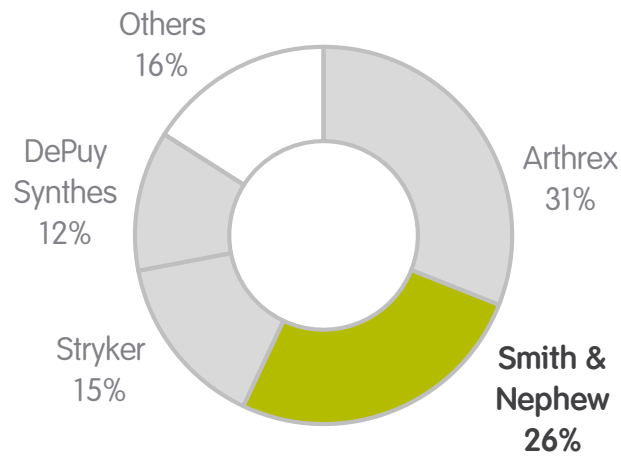
\$14.5bn market
(growth +2%)



#4 position

Sports Medicine

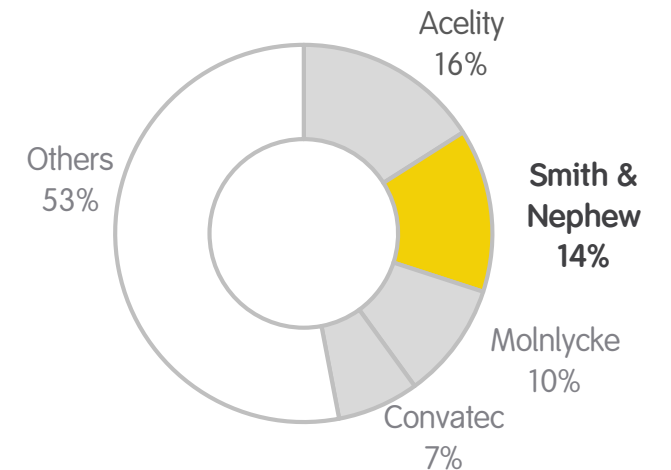
\$5.0bn market
(growth +5%)



#2 position

Advanced Wound Management

\$9.0bn market
(growth +5%)



#2 position

1) Data used in 2018 estimates generated by Smith & Nephew is based on publicly available sources and internal analysis and represents an indication of market shares
2) DePuy Synthes is a division of Johnson & Johnson.

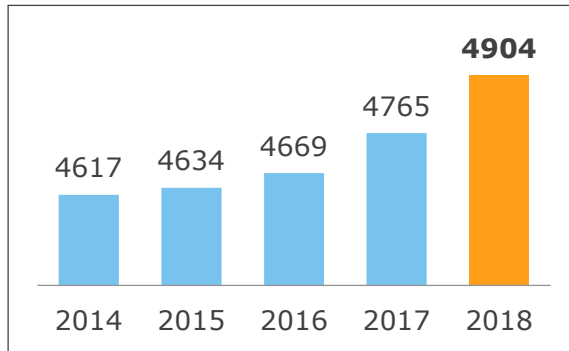
Our performance



Revenue

\$4,904m

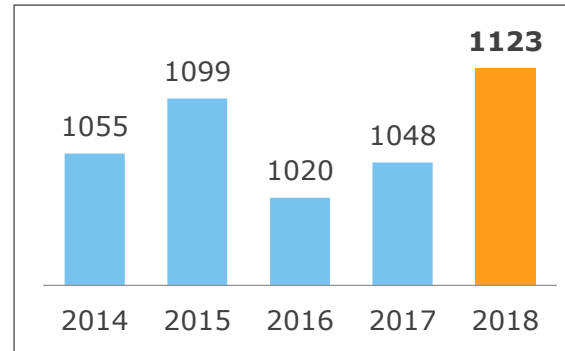
+2%*



Trading Profit

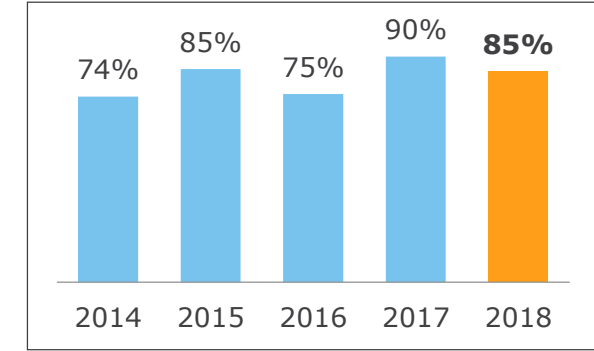
\$1,123m

22.9% margin



Trading cash conversion

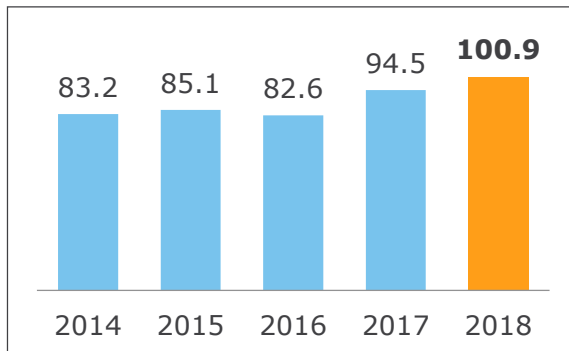
85%



Adjusted earnings per share (EPSA)

100.9¢

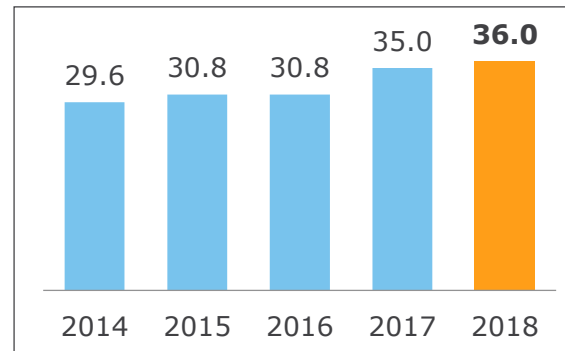
+5%_{CAGR}



Dividend per share

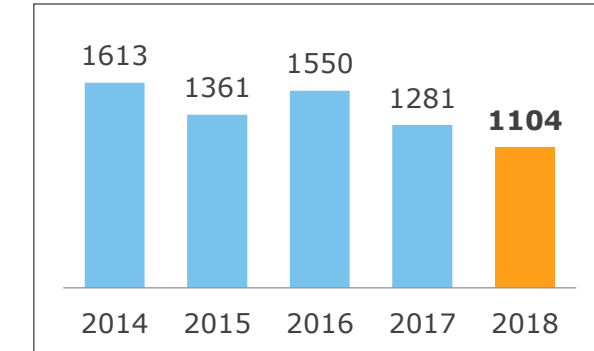
36.0¢

+5%_{CAGR}



Net Debt

\$1,104m



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

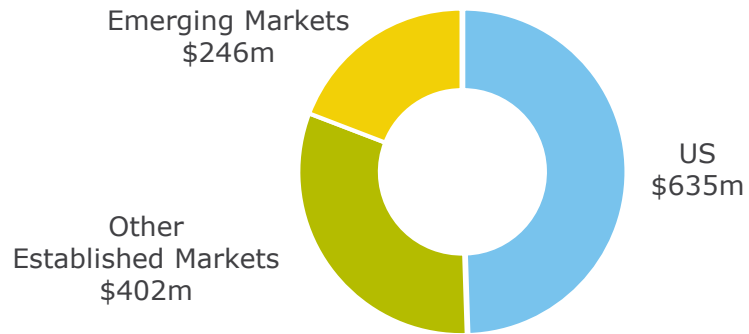
H1 2019 Highlights

	First half	
	2019 \$m	2018 \$m
Revenue	2,485	2,440
Underlying growth	3.9%	
Trading profit	532	507
Trading profit margin	21.4%	20.8%
IFRS Operating profit	419	372
IFRS Operating profit margin	16.8%	15.3%
EPSA	45.8¢	43.7¢
EPS	35.3¢	31.4¢

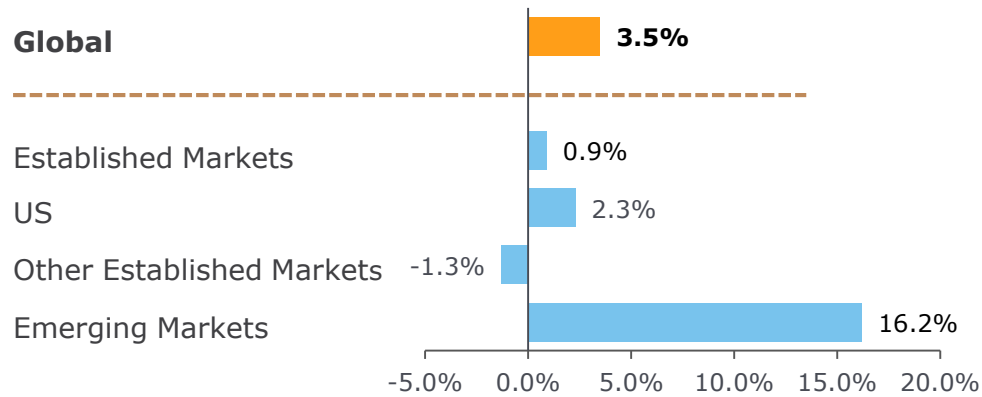
Q2 2019 revenue: \$1,283m, 3.5% underlying, 3.1% reported



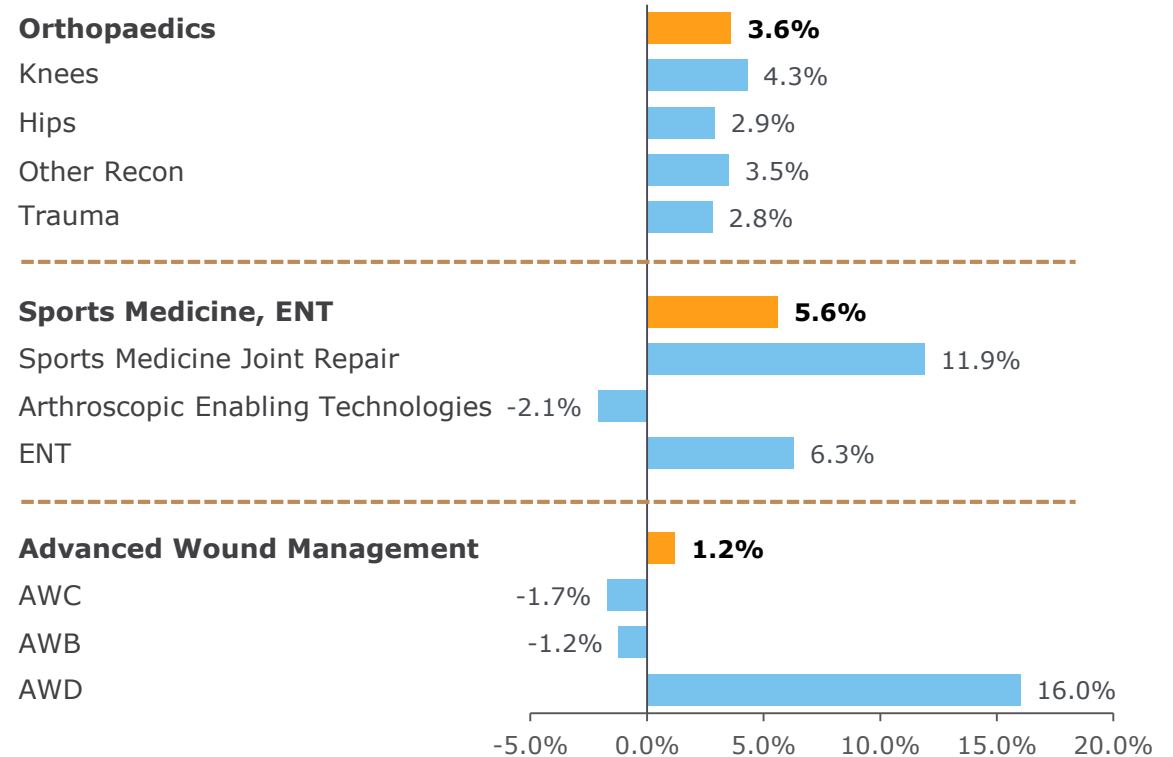
Revenue split



Geographical growth



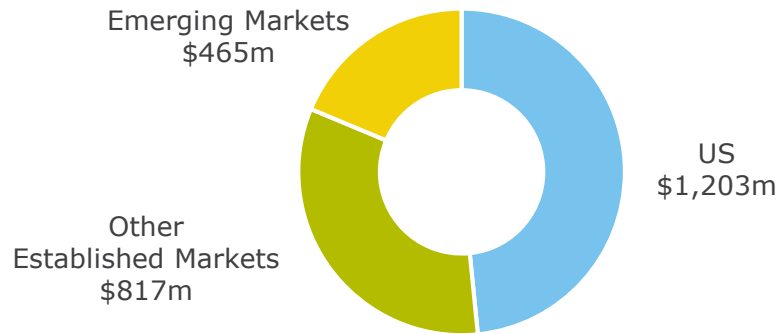
Product franchise growth



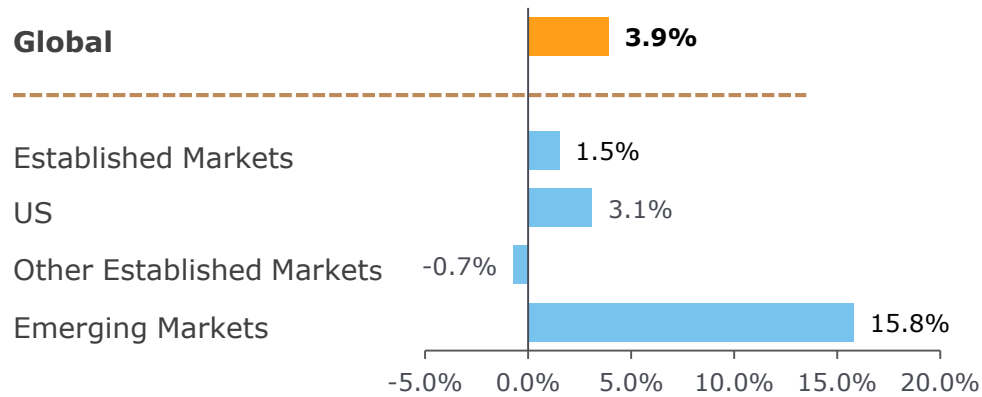
H1 2019 revenue: \$2,485m, 3.9% underlying, 1.8% reported



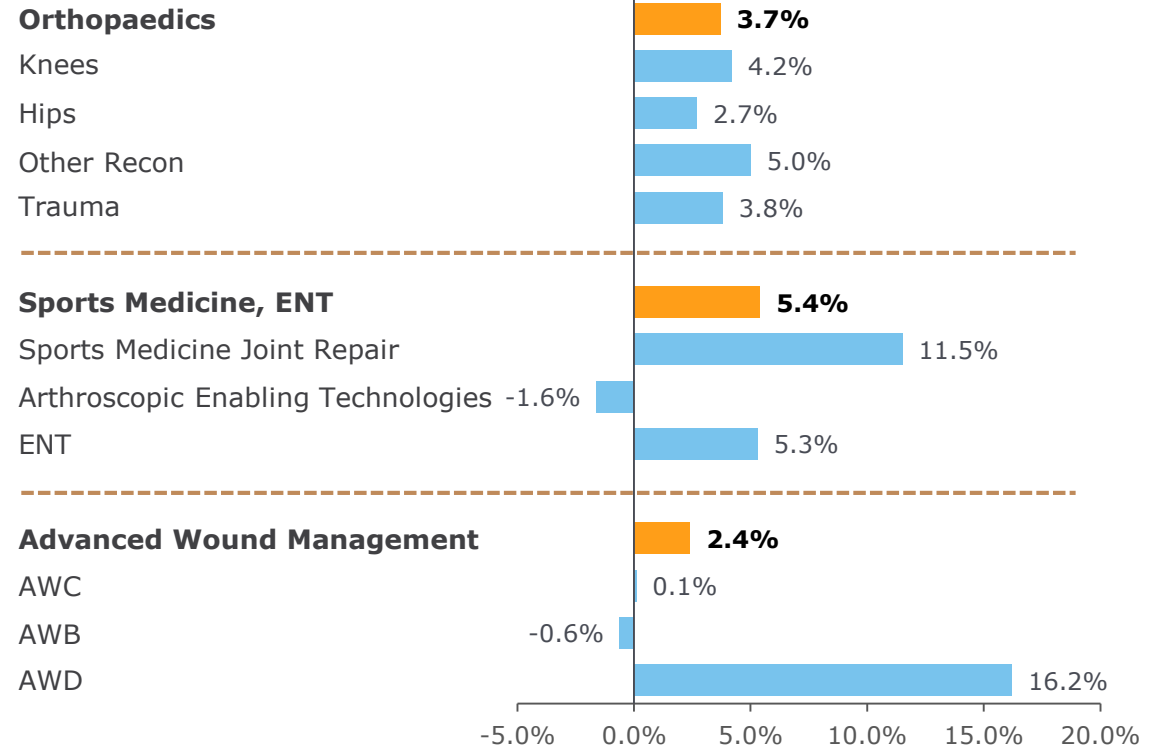
Revenue split



Geographical growth



Product franchise growth

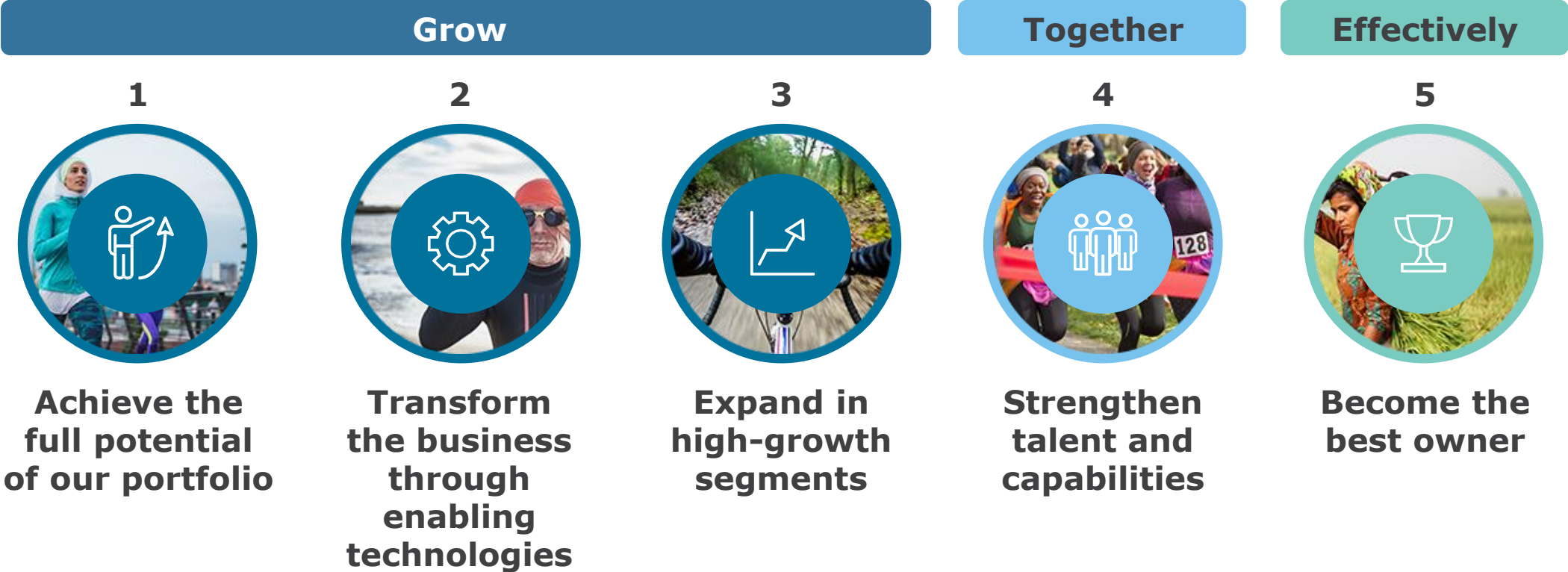


2019	Sales growth: Underlying: 3.0% to 4.0% Reported: 3.6% to 4.6% ⁽¹⁾	Trading profit margin: 22.8% to 23.2%	Tax rate: 19% to 21% ⁽²⁾
Medium term	Sales growth: Consistent growth above market	Trading profit margin: Ongoing improvement	Tax rate: 19% to 21% ⁽²⁾

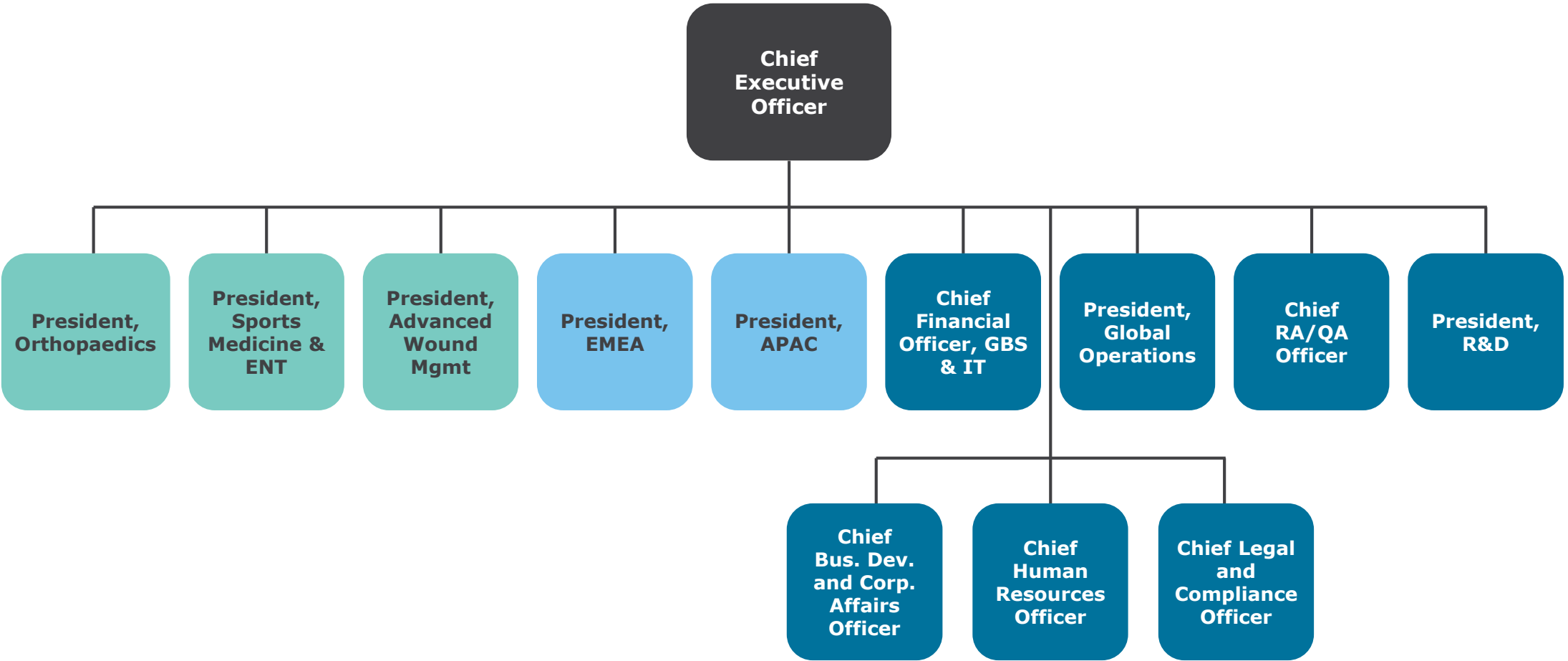
⁽¹⁾ Based on the foreign exchange rates prevailing on 25 July 2019

⁽²⁾ Tax rate on trading result

Strategic imperatives for the company



New commercial model: creation of global franchises



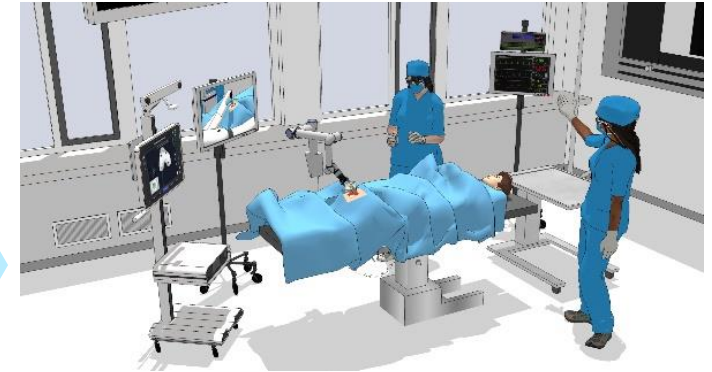
Moving from robotic-assisted surgery to a digital ecosystem



- Launch of NAVIO 7.0 in H2 2019
- Brainlab hip software on NAVIO



- Launch of next-generation platform, with Brainlab hip and knee software
- Introduction of robotic arms



- Ecosystem incorporating stand-alone robotic arms, augmented reality
- Expansion into sports medicine and other clinical specialties

Executing on M&A strategy



Acquisition of Orthopaedic Joint Reconstruction Business





APEX summary



- 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**

Appendices

July 2019	
Foreign exchange and other revenue impact	
Impact of translational FX on revenue ⁽¹⁾	(2.0%)
Acquisition impact on revenue	+2.6%
Non-trading items	
Restructuring costs	c. \$100-120m
Acquisition and integration costs	c. \$30-40m
European Medical Device Regulation (MDR) compliance costs	c. \$50m
Other	
Amortisation of acquisition intangibles	c. \$140-150m
Income from associates	c. \$5m
Net interest ⁽²⁾	\$50-55m
Other finance costs	c. \$15m
Tax rate on trading result	19%-21%

(1) Based on the foreign exchange rates prevailing on 25 July 2019

(2) Excludes interest associated with IFRS 16 leases

Franchise revenue analysis



	2018					2019		
	Q1 Growth %	Q2 Growth %	Q3 Growth %	Q4 Growth %	Full year Growth %	Q1 Growth %	Q2 Revenue \$m	Q2 Growth %
Orthopaedics	0	1	5	4	3	3.9	552	3.6
Knee Implants	2	3	4	3	3	4.1	262	4.3
Hip Implants	(2)	1	4	4	2	2.4	156	2.9
Other Reconstruction	30	27	43	45	36	6.9	16	3.5
Trauma	(2)	(5)	3	1	(1)	4.8	118	2.8
Sports Medicine & ENT	1	3	3	2	2	5.3	379	5.6
Sports Medicine Joint Repair	5	7	8	8	7	11.0	194	11.9
Arthroscopic Enabling Technologies	(5)	(1)	(2)	(4)	(3)	(1.1)	146	(2.1)
ENT	6	5	5	3	5	4.2	39	6.3
Advanced Wound Management	(2)	1	1	2	0	4.1	352	1.2
Advanced Wound Care	0	2	1	2	1	2.0	177	(1.7)
Advanced Wound Bioactives	(12)	(6)	(7)	(3)	(6)	0.4	114	(1.2)
Advanced Wound Devices	2	9	11	14	9	16.4	61	16.0
Total	0	2	3	3	2	4.4	1,283	3.5

All revenue growth rates are on an underlying basis and without adjustment for number of selling days. 2018 growth by franchise has been re-presented to align with the new global franchise structure effective from 1 January 2019. There has been no change in total growth for any period presented.

Regional revenue analysis



	2018					2019			
	Q1	Q2	Q3	Q4	Full Year	Q1	Q2		
	Growth %	Growth %	Growth %	Growth %	Growth %	Revenue \$m	Growth %	Revenue \$m	Growth %
US	(2)	1	4	3	1	568	4.0	635	2.3
Other Established Markets⁽¹⁾	(2)	1	(1)	0	0	415	(0.1)	402	(1.3)
Total Established Markets	(2)	1	2	2	1	983	2.2	1,037	0.9
Emerging Markets	9	6	10	8	8	219	15.3	246	16.2
Total	0	2	3	3	2	1,202	4.4	1,283	3.5

(1) Other Established Markets' are Australia, Canada, Europe, Japan and New Zealand.
All revenue growth rates are on an underlying basis and without adjustment for number of selling days

H1 trading income statement



	2019 \$m	2018 \$m	
Revenue	2,485	2,440	3.9% underlying growth
Cost of goods sold	(646)	(651)	
Gross profit	1,839	1,789	
<i>Gross profit margin</i>	74.0%	73.3%	
Selling, general and admin	(1,178)	(1,168)	
Research and development	(129)	(114)	
Trading profit	532	507	
<i>Trading profit margin</i>	21.4%	20.8%	+60bps growth

H1 EPSA and EPS



	Full Year		
	2019 \$m	2018 \$m	Growth
Trading profit	532	507	5%
Net interest payable	(25)	(25)	
Other finance costs	(6)	(7)	
Share of results from associate	(3)	2	
Adjusted profit before tax	498	477	
Taxation on trading result	(98)	(96)	
Adjusted attributable profit	400	381	
Weighted average number of shares (m)	874	873	
Adjusted earnings per share ("EPSA")	45.8¢	43.7¢	5%
Earnings per share ("EPS")	35.3¢	31.4¢	13%
Dividend per share	14.4¢	14.0¢	3%

2019 tax rate*: 19.7%

* Tax rate on trading result

H1 free cash flow



	Full Year	
	2019 \$m	2018 \$m
Trading profit	532	507
Share based payment	17	18
Depreciation and amortisation	188	171
Lease liability repayments	(23)	-
Capital expenditure	(153)	(178)
Movements in working capital and other	(156)	(131)
Trading cash flow	405	387
<i>Trading cash conversion</i>	<i>76%</i>	<i>76%</i>
Restructuring, acquisition, legal and other	(38)	(147)
Net interest paid	(24)	(26)
Taxation paid	(68)	(95)
Free cash flow	275	119

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
2020	62	63	63	64	252

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.



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