

# Investor Presentation

## October – December 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 Third Quarter 2018 Results announcement dated 1<sup>st</sup> November 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



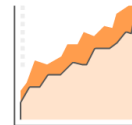
A constituent of the **UK's FTSE100**, our shares are traded in London and New York

## Shares



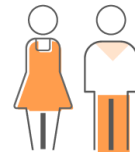
S&N has paid a **dividend to shareholders** on its ordinary shares every year since 1937

## \$4.8bn



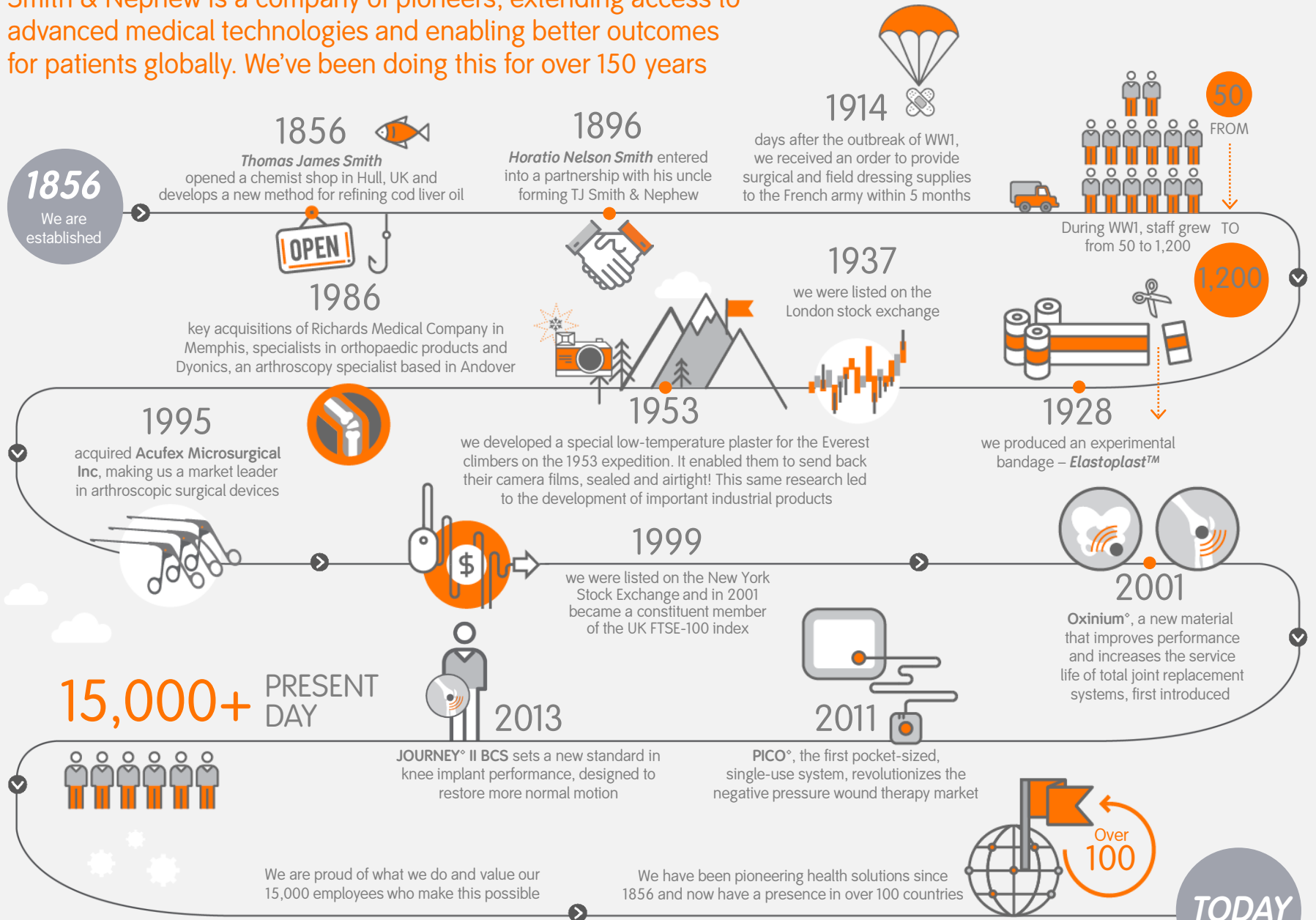
Annual sales in 2017 were **\$4.8 billion**

## 15,000



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

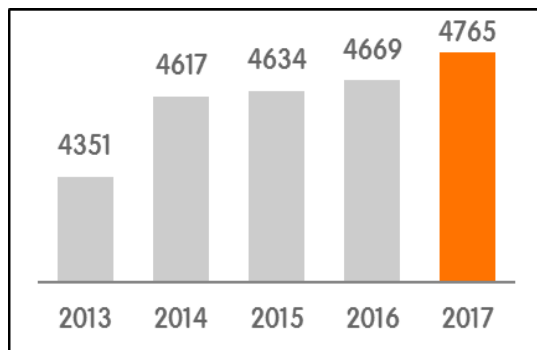
Smith & Nephew is a company of pioneers, extending access to advanced medical technologies and enabling better outcomes for patients globally. We've been doing this for over 150 years



# Our performance

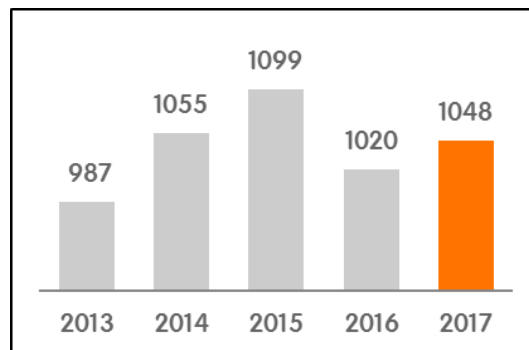
## Revenue

\$4,765m +3%\*



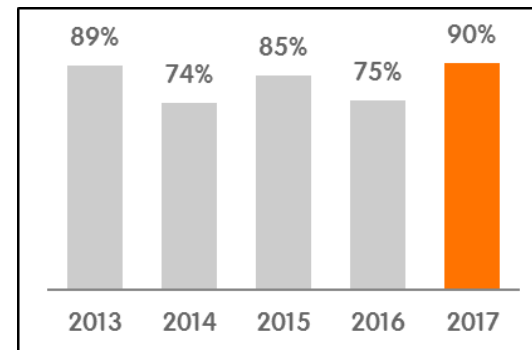
## Trading Profit

\$1,048m 22.0% margin



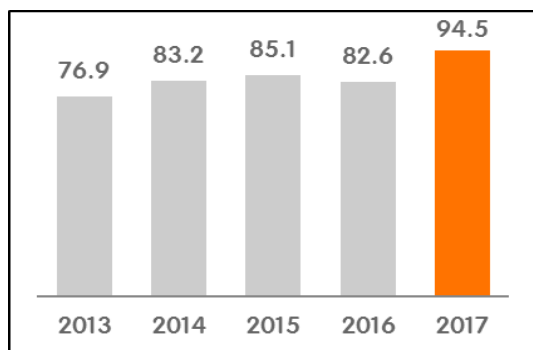
## Trading cash conversion

90%



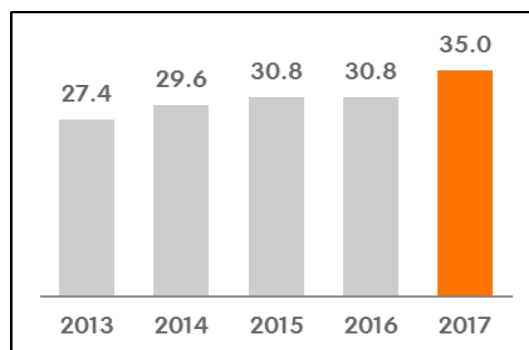
## Adjusted earnings per share (EPSA)

94.5¢ +5%<sub>CAGR</sub>



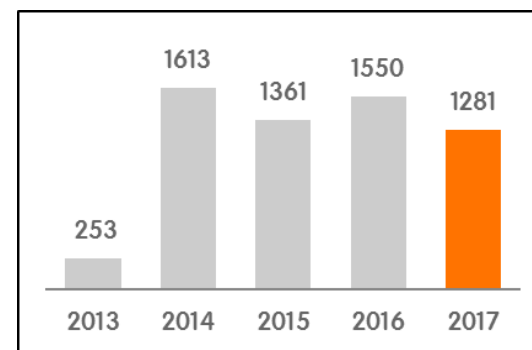
## Dividend per share

35.0¢ +6%<sub>CAGR</sub>



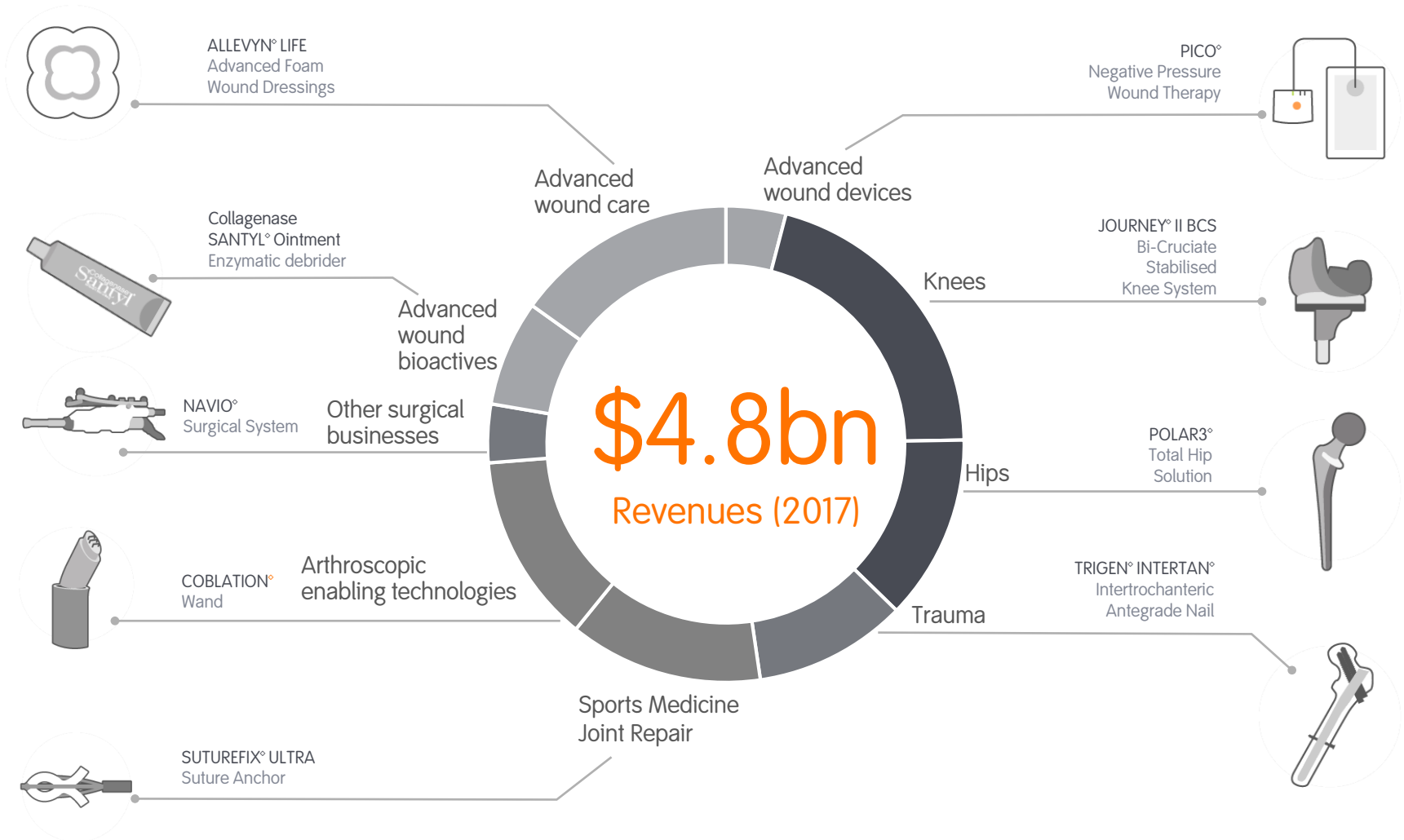
## Net Debt

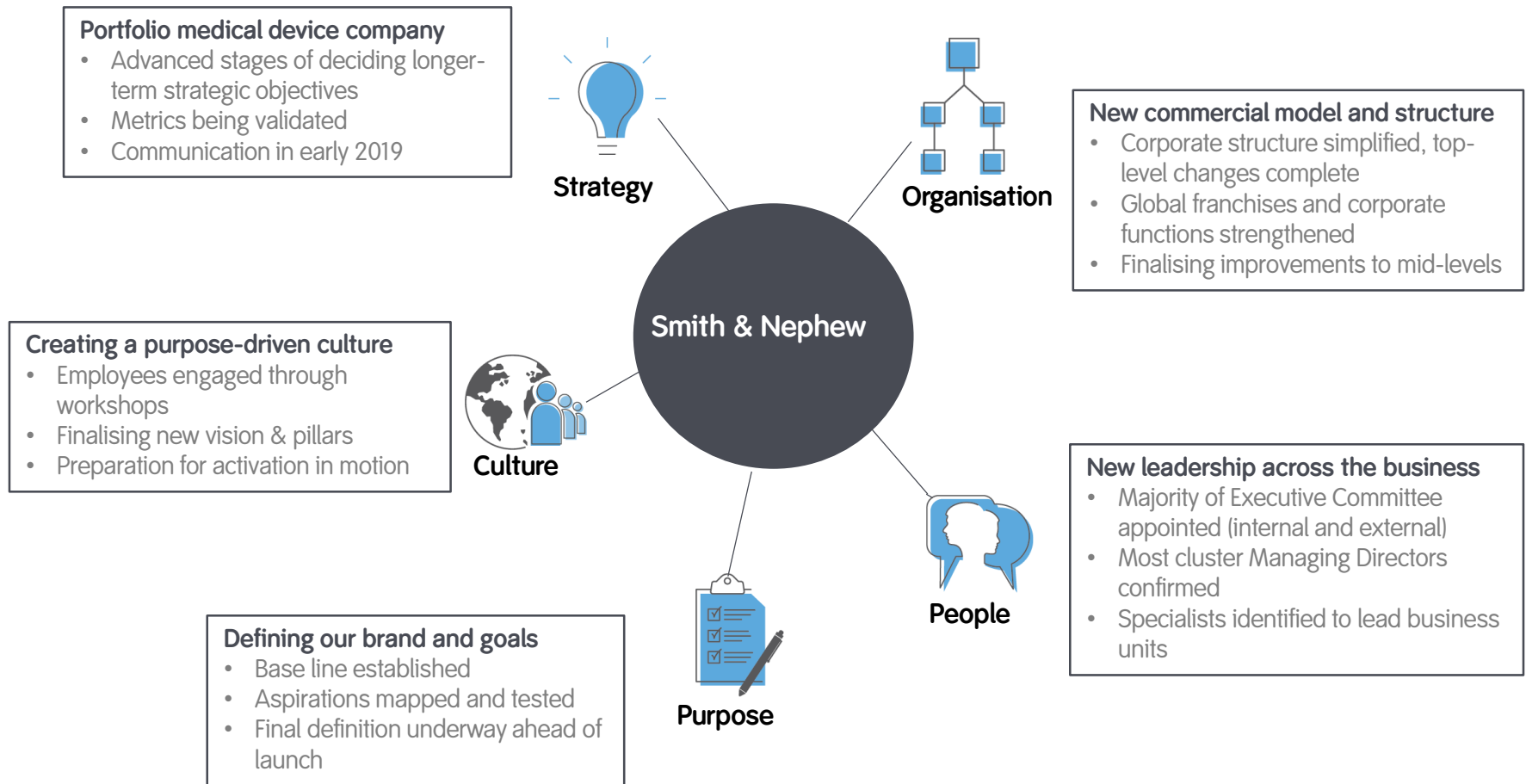
\$1,281m



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

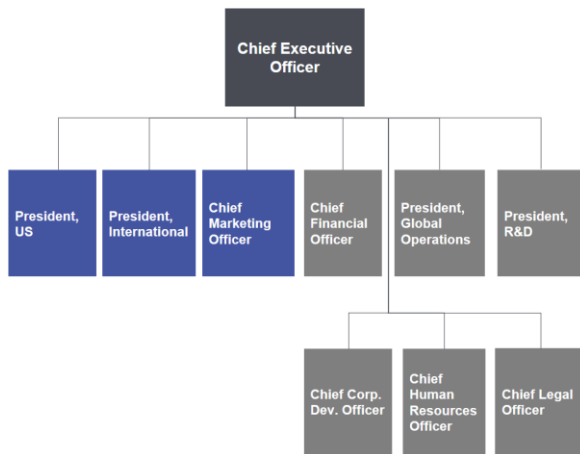
# Our business: A portfolio medical device company



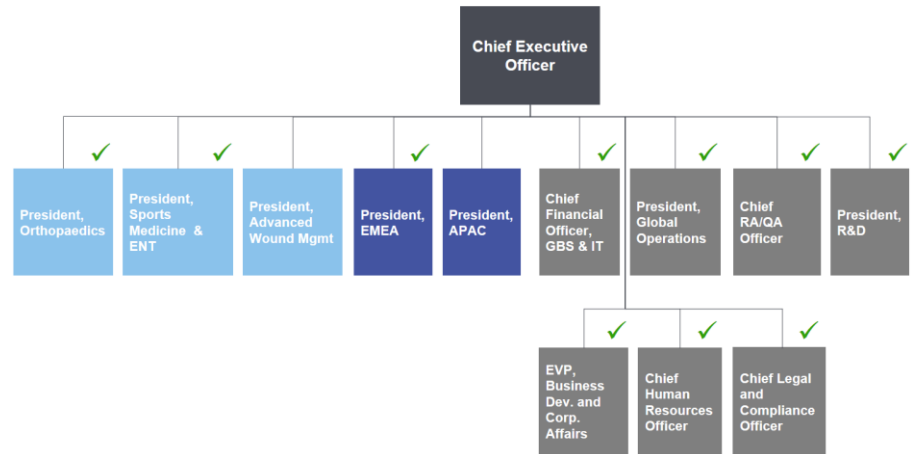


# New commercial model: creation of global franchises

## Old model: Three generalist commercial leaders

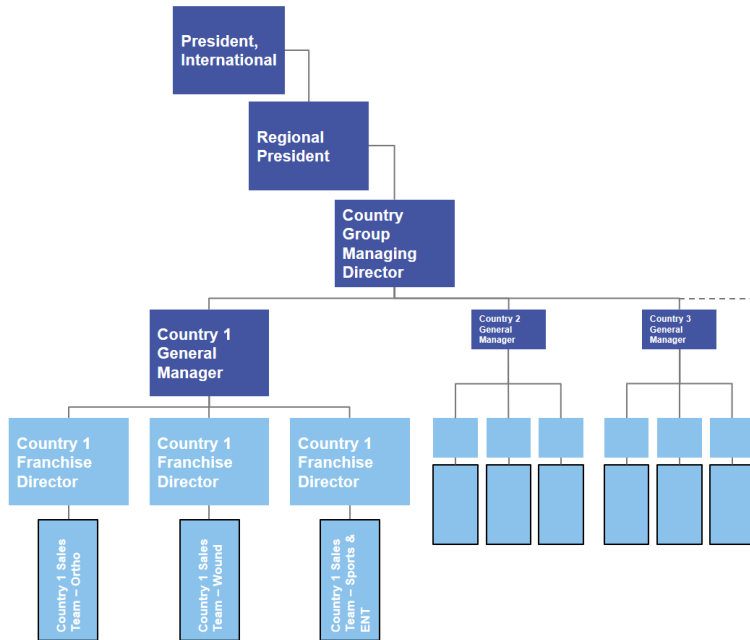


## New model: Three specialist franchise presidents

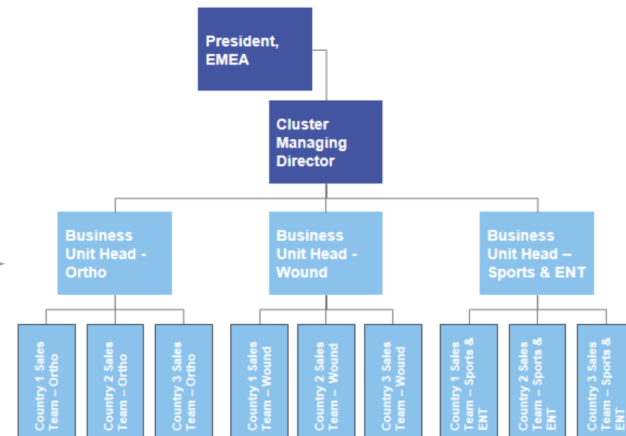




Example of old model, Northern and Central Europe:  
Multiple layers of regional generalists

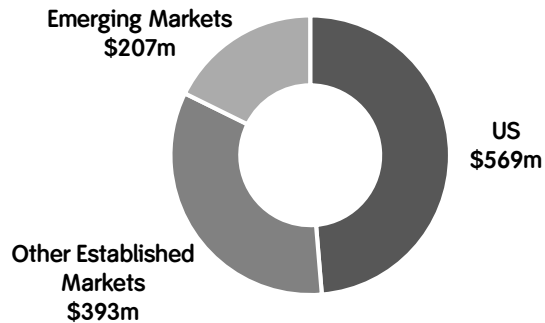


New model:  
Simplification and specialisation

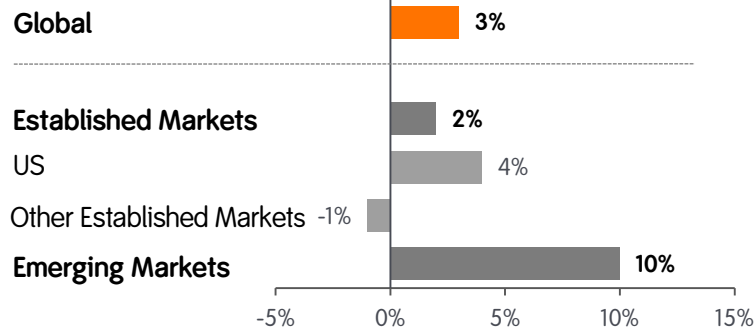


# Q3 revenue of \$1,169m; 2% reported growth, 3% underlying

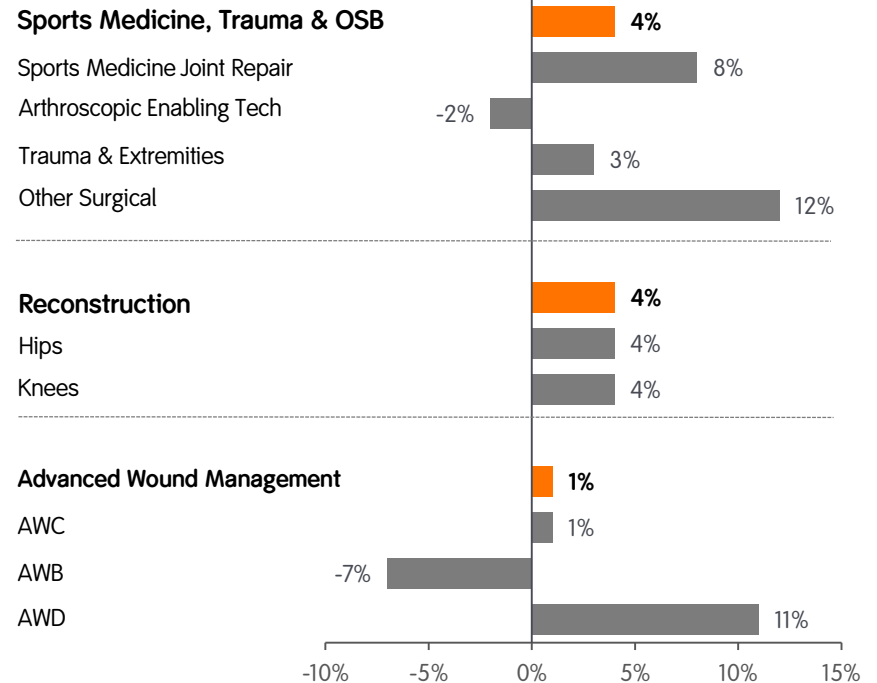
## Q3 revenue split



## Geographical growth

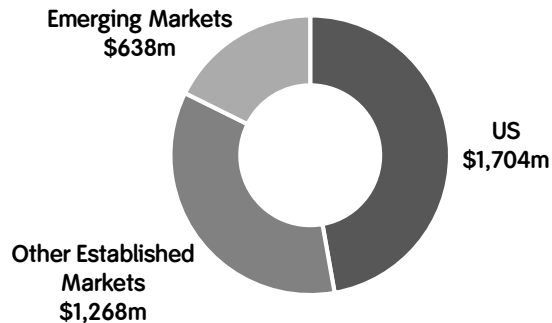


## Product franchise growth

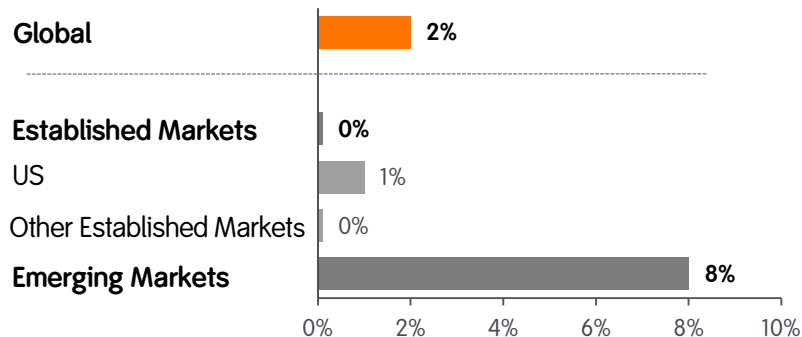


# YTD revenue of \$3,610m; 4% reported growth, 2% underlying

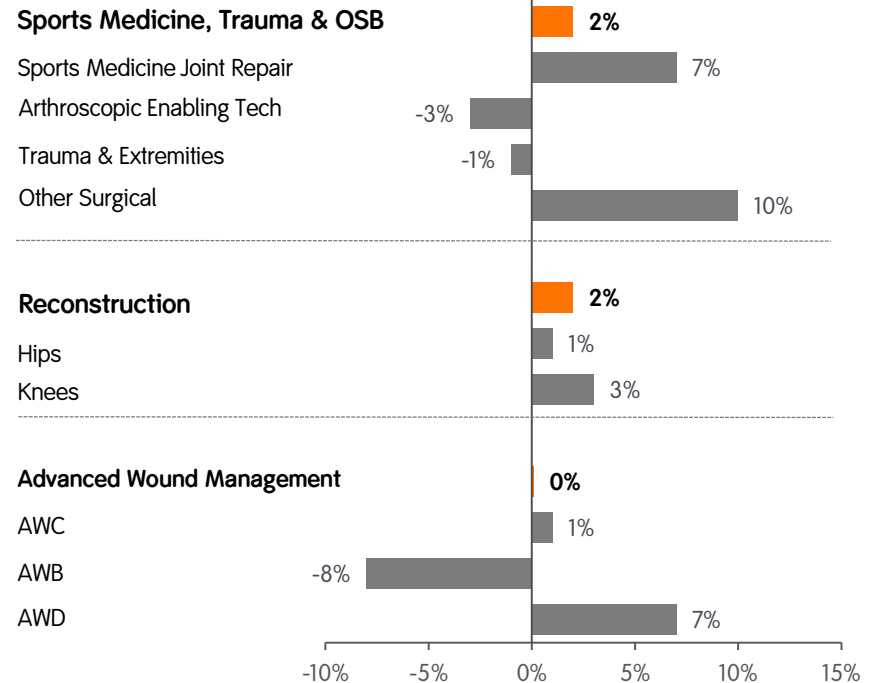
## YTD revenue split



## Geographical growth



## Product franchise growth



## 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:**

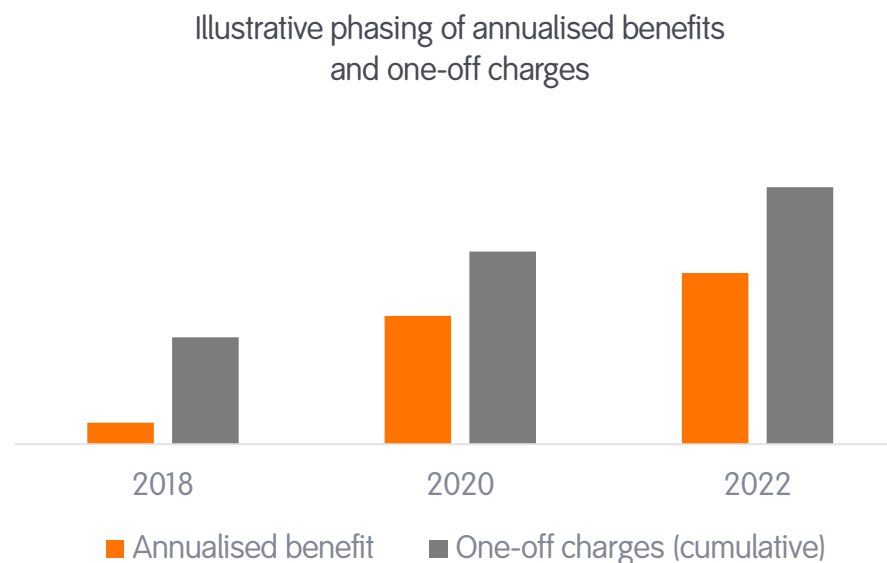
- expansion of our Global Business Services platform to accommodate relocations and insourcing of services
- further consolidation, relocation and standardisation of Global Functions
- rationalisation of legacy IT systems and 'cloud-first' strategy

## 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



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

(1) Based on exchange rates prevailing on 26 October 2018

(2) Tax rate on trading result

# Appendices

	October 2018
<b>Foreign exchange and other revenue impact</b>	
Impact of translational FX on revenue*	+0.6%
Acquisition impact on revenue	+0.3%
<b>Exceptional items</b>	
Restructuring costs	c. \$120m
Acquisition and integration costs	c. \$5m
European Medical Device Regulation (MDR) compliance costs	\$15m-\$20m
<b>Other</b>	
Amortisation of acquisition intangibles	c. \$110m
Income from associates	c. \$5m
Net interest	\$51m - \$53m
Other finance costs	c. \$15m
Tax rate on trading result	20-21%

\*Based on the foreign exchange rates prevailing on 26<sup>th</sup> October 2018



# Franchise revenue analysis



	2017					2018			
	Q1	Q2	Q3	Q4	Full Year	Q1	Q2	Q3	
	Growth %	Growth %	Growth %	Growth %	Growth %	Growth %	Growth %	Revenue \$m	Growth %
<b>Sports Medicine, Trauma &amp; OSB</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>2</b>	<b>3</b>	<b>1</b>	<b>2</b>	<b>476</b>	<b>4</b>
Sports Medicine Joint Repair	7	5	8	6	6	6	8	166	8
Arthroscopic Enabling Technologies	(1)	(4)	(3)	(3)	(3)	(5)	(1)	138	(2)
Trauma & Extremities	5	7	(2)	5	4	(2)	(5)	122	3
Other Surgical Businesses	7	11	6	4	7	9	8	50	12
<b>Reconstruction</b>	<b>3</b>	<b>2</b>	<b>4</b>	<b>4</b>	<b>3</b>	<b>0</b>	<b>3</b>	<b>374</b>	<b>4</b>
Knee Implants	5	4	6	6	5	2	3	232	4
Hip Implants	0	(1)	1	1	0	(2)	1	142	4
<b>Advanced Wound Management</b>	<b>1</b>	<b>3</b>	<b>2</b>	<b>0</b>	<b>2</b>	<b>(2)</b>	<b>1</b>	<b>319</b>	<b>1</b>
Advanced Wound Care	1	2	(1)	(3)	0	0	2	184	1
Advanced Wound Bioactives	(8)	0	7	0	0	(12)	(6)	81	(7)
Advanced Wound Devices	16	14	8	14	13	2	9	54	11
<b>Group</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>2</b>	<b>3</b>	<b>0</b>	<b>2</b>	<b>1,169</b>	<b>3</b>

# Regional revenue analysis



	2017					2018			
	Q1	Q2	Q3	Q4	Full Year	Q1	Q2	Q3	
	Growth %	Growth %	Growth %	Growth %	Growth %	Growth %	Growth %	Revenue \$m	Growth %
<b>Geographic regions</b>									
US	1	2	2	1	2	(2)	1	569	4
Other Established Markets	1	(1)	0	(1)	0	(2)	1	393	(1)
<b>Established Markets</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>0</b>	<b>1</b>	<b>(2)</b>	<b>1</b>	<b>962</b>	<b>2</b>
<b>Emerging Markets</b>	<b>12</b>	<b>13</b>	<b>9</b>	<b>14</b>	<b>12</b>	<b>9</b>	<b>6</b>	<b>207</b>	<b>10</b>
<b>Group</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>2</b>	<b>3</b>	<b>0</b>	<b>2</b>	<b>1,169</b>	<b>3</b>

# 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
2019	63	63	63	62	251



## **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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