



## Smith & Nephew

*Smith & Nephew presentation delivered at the 37th Annual J.P. Morgan Healthcare Conference on Monday, January 07, 2019 at 8:30 AM*

**David Adlington:** Good morning, everybody. I'm David Adlington, I head up the European medical devices and services research group in London for JP Morgan. It's my pleasure this morning to introduce Namal Nawana, the CEO of Smith & Nephew. The breakout room afterwards is in the Olympic Room. Thank you. Namal?

**Namal Nawana:** Good morning, everyone, and thank you David for the introduction. Before I begin, I'll remind you that certain statements in this presentation are forward looking statements, these statements are based on management's current expectations and are subject to uncertainty and changes in circumstances.

Actual results may differ materially from those included in these statements due to a variety of factors, more information about these factors is contained in the company's filings with the SEC.

There will be no update on trading during the presentation or Q&A, however Smith & Nephew confirms that it expects to meet its 2018 full-year guidance, as disclosed on the first of November, 2018 and will publish fourth quarter and full year results on 2018 on the 7th of February.

Some of you may not be familiar with Smith & Nephew, we're a 160-year-old medical technology company founded in Hull, in the north of England. Today we operate in more than 100 countries. We've annual revenues of almost \$5 billion, and around 16,500 employees. Today our portfolio is comprised of three principal businesses, orthopedics, sports medicine, and wound management.

Orthopedics, which includes our hips, knees, and trauma franchises, is around 45 percent of our sales. We're one of the four leading players in hips and knees, and are one of the first to market in robotics for joint replacement.

Next there's sports medicine which includes both joint repair and arthroscopic-enabling technologies. We're the number two global player overall. Along with our other surgical businesses, these constitute around 30 percent of our sales.

Advanced wound management is around a quarter of our sales, and we're present across a range of categories to treat both chronic and acute wounds. We're the number two player overall by revenue, and we're the only company with a meaningful presence across all of our segments, advanced wound care, devices, and bioactives. There is excellent technology across our extensive portfolio.

I joined Smith & Nephew in May of last year, and that was my perception from the outside in. It's only been reinforced in my time inside the company. For just some examples, in hips there is our POLAR3 construct which has class-leading survivorship data in the UK's national joint registry.

In sports medicine, WEREWOLF is already the most advanced coblation system available. We expect to launch the FLOW 90 wand that will bring technology, this technology, into the shoulder. In wound management, our single-use PICO is the first negative pressure product to receive a NICE Medtech innovation briefing for the prevention of surgical site complications.

There are further examples like these in just about every area of our business. The markets we operate in are large, with solid, long-term growth supported by favorable demographics and lifestyle trends. In just the core areas we operate, we estimate there's a roughly \$40 billion market growing at around four percent.

Over a 10-year period, our compound annual growth rate of 2.5 percent has lagged that aggregate 4 percent. While Smith & Nephew has had the benefit of stability, we have an opportunity to now to get more of the portfolio to market growth.

In fact, when we drill down to the individual product categories in our portfolio, we found that less than half of them had been growing at or above their markets. Improving that organic growth is our priority. We've made some progress in some areas already.

For example, we've been able to accelerate our hip franchise in just two quarters by increasing our focus on our POLAR3 construct and launching our REDAPT revision system. There's still much to do, and I'll use the rest of the presentation to talk about what we're doing to deliver consistently stronger organic growth across the business in future.

We've established five new strategic imperatives. They form our value creation plan for the medium term. While maximizing commercial advantage from what we see as key market trends such as the shift of procedures towards ambulatory surgical centers in the US, and the emergence of new enabling technologies as well as the continued growth in emerging markets.

These imperatives will be the guide for all of us at Smith & Nephew. They're being applied at an enterprise level, and in the planning for each individual business area. The first three imperatives are all focused on growth, starting with the goal to achieve the full potential of our portfolio. I've talked already about the strength of the technologies that we have in Smith & Nephew, stronger than their market shares indicate.

Improving their market performance means making the most of lead products that we already have, and improving launch excellence for new products in 2019 and beyond. The first part of that is the shift in our business model to a franchise focus.

I'll come back to those changes when I talk about strengthening our talent and capabilities. The other important part is to ensure that we're well-positioned in the fast-growing, fastest-growing market segments where we play.

One such fast-growing market segment is the ambulatory surgical center in the US. We see almost 25 percent annual growth in orthopedic reconstruction volumes in ASCs. The economics behind the growth are compelling for all stakeholders.

Commercial payors have much lower costs for outpatient treatment than they do for inpatients, and Medicare is covering more treatment across all of these areas in ASCs over time. Smith & Nephew's aggregate growth in ASCs though, mimics our overall growth rate too closely.

By taking an enterprise approach, we should be able to better harness the growth of the opportunity and we believe, our portfolio is uniquely positioned. Around 30 percent of our sports medicine business in the US comes from ASCs already. They're also a significant established channel for ENT.

Our best ASC procedure growth is actually in reconstruction, it's been close to the near-25 percent market growth rate although both our patient-specific instrumentation with VISIONAIRE, and our CT-free robotic system are particularly well-adapted for the ASCs.

We can leverage the breadth of our portfolio that we offer in ASCs and look to further expand our presence in the higher-growth ASC segments over time. In emerging markets we're coming from a position of strength.

They already provide 18 percent of our revenue. As identified some time ago as an opportunity,

and the team has executed well. The reported 10 percent five-year CAGR to 2017 was well above our overall growth rate. We obviously need to keep that going, and there are still some significant opportunities in front of us.

China is a country we're already doing well. Smith & Nephew has been growing above the market rate with 16 percent underlying growth in the first nine months of 2018. China has kept becoming a more important part of our portfolio as its growth has compounded, and is now our second-largest single market.

Another opportunity is Latin America, which we've talked less about in the past. It has attractive growth, and margins close to what we achieve in Europe. I've put that region under the direct control of our franchise presidents.

A new leadership structure has the Europe, Middle-East, and Africa, as well as Asia-Pacific regions represented directly on my executive committee. We're organized better now to execute on opportunities in those regions.

Moving on to our second imperative, which is to transform the business through enabling technologies. Smith & Nephew has had a history of innovation with enabling technologies. Technologies like the various components of our arthroscopic tower were brought to the world by Smith & Nephew taking previously open surgery to become minimally invasive.

Another example is VISIONAIRE, which is used in 40 percent of JOURNEY knee surgeries, and reduces the instrumentation to perform the procedures with customized cutting blocks for individual patients.

Our latest innovation, the NAVIO robotics system, improves the accuracy and reproducibility of knee surgery. We're on the early days of this technology, and there's huge potential to develop it further. Our base technology is scalable into many other surgical procedures such as sports medicine and hip surgery, and one of the key features being a CT-free platform will become more important as we engage more with ASCs.

NAVIO and the upcoming generations of the platform will be able to bring their value to packages of procedures. We've said before, that we have a multigenerational development plan in place and you'll hear more from us later this year on the specifics of what is coming next.

Our third imperative is to expand our business in high-growth segments. As an example, Smith &

Nephew now participates in hip and knee revision surgery with complete systems. Up until recently, we had an incomplete portfolio.

Revisions are a higher-growth area of joint replacement, and we're now positioned to fully participate and succeed. We have a number of internal product developments which position us to enter further high-growth segments. Another example is jewel mobility hip bearings, where Smith & Nephew will leverage its class-leading OXINIUM bearing surfaces.

The most successful medical device companies also use business development as a way to invest in additional growth. The short development cycles in med tech make it difficult to stay at the leading edge of every technology field with just internal R&D. You have to be willing to source innovation and growth from the outside as well. Rotation Medical has been a successful recent example of what we've done in business development.

We've been rolling out the lead product REGENETEN to our sports medicine sales force in the US. It's tracking well ahead of our deal model, with sales more than doubling in the first nine months of 2018. There's more to come as we add manufacturing capacity and roll it out more widely around the world.

You may also have seen that we announced another acquisition in December. Ceterix brings us NovoStitch Pro, which is a novel device which enables a wider range of meniscal tears to be repaired rather than resected expanding the indications in a field of surgery where Smith & Nephew leads already. Again, the product drops neatly into our existing sales force.

We have found good deals like these, but we just haven't done enough of them. Whether you look at the numbers of deals, or average annual M&A spend as a proportion of sales, we've been less active than our peers in recent years.

We intend to change this. The Smith & Nephew executive team has mapped out our full universe both of potential bolt-ons in markets where we already operate, and also deals that would give us access to adjacent markets with good strategic fit.

You should expect a higher level of activity from us in future, and with net debt to adjusted EBITDA of less than one times today, we have the capacity in our balance sheet to make M&A an important source of growth and value creation. The fourth imperative is to strengthen the talent and capabilities a Smith & Nephew. Part of that is attracting and retaining leading people in our industry.

Since I joined in May, we've had substantial change in our executives and in multiple layers of leadership. We've created new roles and have put in place a leadership team of specialists where they're leading a specialist function, or being specialists in a particular field of medical devices.

In particular we have franchise and regional experts leading our commercial organization. Over half of the executive team are now in their roles and new in their roles in just the last year. Our franchise presidents all bring deep backgrounds in medical device industry from their previous roles, including extensive and diverse commercial experience.

We announced in November the appointments of Skip Kiil as president of orthopedics, and Brad Cannon as president of sports medicine and ENT. I'm delighted to also announce that Simon Fraser has now joined Smith & Nephew as president of advanced wound management. Simon joins us from Dentsply Sirona, and has more than 25 years of experience across medical devices, pharmaceuticals, and diagnostics including wound management.

Importantly, he's an accomplished business leader who has successfully managed large, global commercial organizations with full P&L responsibility while growing businesses and market share.

Where we previously had two commercial leaders, we now have five key commercial leaders responsible for driving the growth of the company. Through this divide and conquer, and most importantly, customer-centric approach, we're looking to improve commercial execution and accelerate growth.

A second key part of strengthening our talent capabilities is engaging our employees through a winning, purpose-driven culture. High levels of engagement are associated with lower employee turnover, and higher productivity.

People engage more with doing business when it comes, where it also means having an impact. Ultimately, it's having the right culture that will give us confidence in higher growth and sustainability. Our purpose is about why we exist as a company, and what we want to do for the world.

Everyone experiences health issues at some time, whether it's in their own lives, or through their family or community. When we resolve those issues as well as possible, and as quickly as possible, we can give people their lives back. That's what drives us, and it's what we mean by a new purpose statement, Life Unlimited.

Moving on to the culture pillars, our employees were closely involved in the project from the beginning. We listened, and we've now established three pillars to guide our behavior. Care, collaboration, and courage.

Care is about empathy, we need to strive for the best understanding of the patients that we ultimately serve, and keep our expanding our positive impact. Collaboration is about a culture of team, based on mutual trust and respect. We're stronger as a team, and we're motivated by this shared vision.

Finally, there's courage. Something we've heard from our employees, is that Smith & Nephew has been too risk averse at times. We want to be more entrepreneurial in future, and look for solutions and achieve them through talent and the force of will.

These pillars now need to be embedded in the way we all work. Behaviors in line with the pillars will be an important basis of employees' performance measurements, development and career planning starting right away.

The final imperative is to become the best owner and operator of our assets. That is about ensuring we fully realize the growth potential of our products while applying the optimal amount of resource. We have an opportunity to meaningfully improve our margins at Smith & Nephew.

Our SG&A ratio is one of the highest among our peers. There is still significant complexity and inefficiency in our current manufacturing, and a material opportunity to deploy LEAN methodologies across the organization.

The Apex Program is an important component. Apex is targeting overall cost savings of \$160 million per annum by 2022, and is on track after the first year. However, there are still further opportunities beyond that across procurement, manufacturing, and supply chain. With the new executive team now in place, we're reviewing what further level of efficiencies may be achievable. These are our five pillars, centered around growth, culture, and effectiveness.

Let me take a moment now to show you a short version of our Life Unlimited launch video, and then come back with some closing remarks.

[video begins]

[background music]

**Narrator:** All more frightening, than when something happens to it. At Smith & Nephew, we have a promise. Two words that inspire all that we do, Life Unlimited. It's our commitment to design and make technology that takes the limits off living, whether that's in wounds, sports medicine, or orthopedics.

It's our belief that with it, nothing should stand in the way of who we can be or what we can do. When we restore a body, we restore the whole person. We remind them that anything is possible, that their life is unlimited too.

[video ends]

**Nawal:** Life unlimited gives and guides our daily energy and purpose at Smith & Nephew, and for our employees, it's something we can all rally behind as we move forward. With the changes we've made since May, we're transforming the way we engage with our customers, with our new operating structures and experienced leadership team. We've established the pillars of a new winning culture, and defined a new strategic imperatives.

Our greatest strength today is our portfolio of medical devices. We have leading technologies in large growing markets. As time passes, our belief is that our leadership and culture will drive accelerated and sustainable growth.

With that, we can move to our question and answer session which will take place in the Olympic Room. Thank you.



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