

# Smith+Nephew

## Fourth Quarter and Full Year 2019 Results



# 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, leverage ratio, 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 2019 Results announcement dated 20 February 2020.

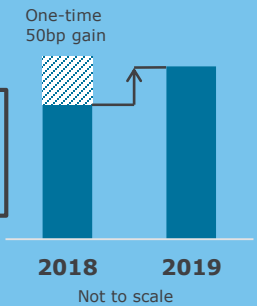
**Roland Diggelmann**  
**Chief Executive Officer**

# Full year highlights – revenue growth and margin in line with guidance



	2018 \$m	2019 \$m
<b>Revenue</b>	4,904	<b>5,138</b>
<b>Underlying growth</b>	2%	<b>4.4%</b>
<b>Trading profit</b>	1,123	<b>1,169</b>
<b>Trading profit margin</b>	22.9%	<b>22.8%</b>
<b>IFRS Operating profit</b>	863	<b>815</b>
<b>IFRS Operating profit margin</b>	17.6%	<b>15.9%</b>
<b>EPSA</b>	100.9¢	<b>102.2¢</b>
<b>EPS</b>	76.0¢	<b>68.6¢</b>
<b>DPS</b>	36.0¢	<b>37.5¢</b>

**+40bps excluding one-time legal gain in 2018**



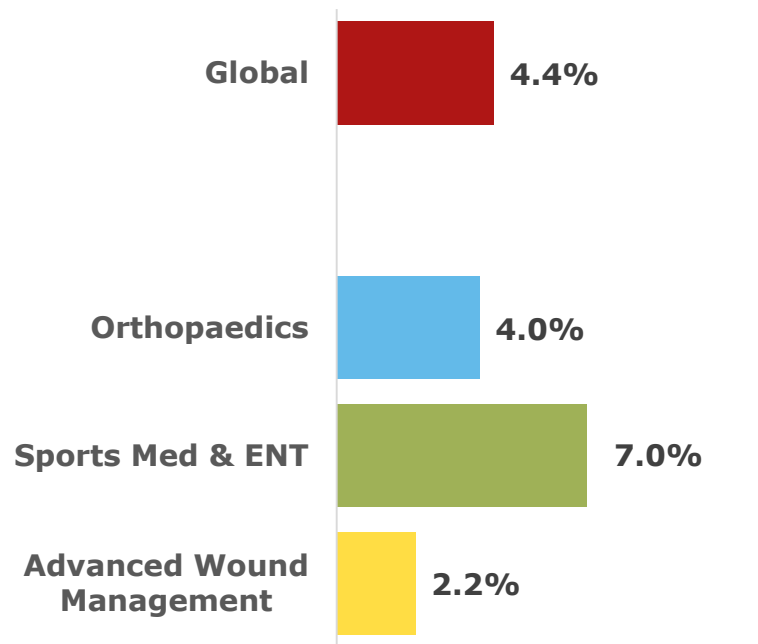
**+1.3%**

**+4%**

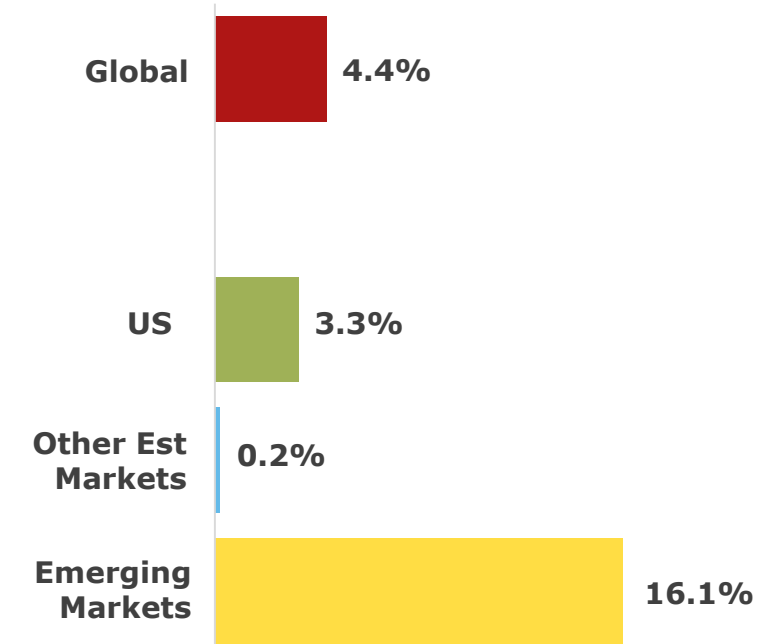
# FY 2019 revenue: \$5,138m +4.4% underlying, +4.8% reported



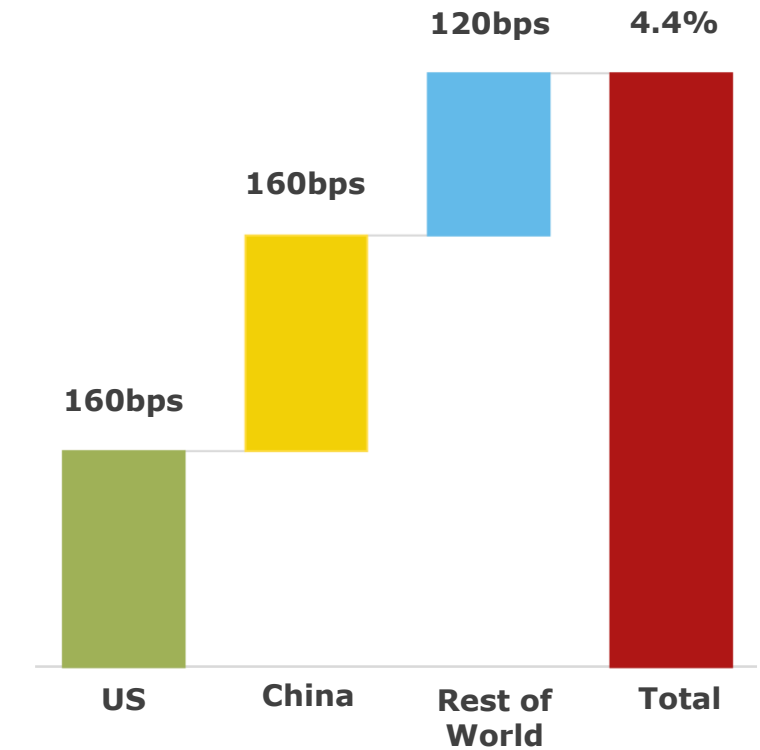
Franchise growth



Geographical growth



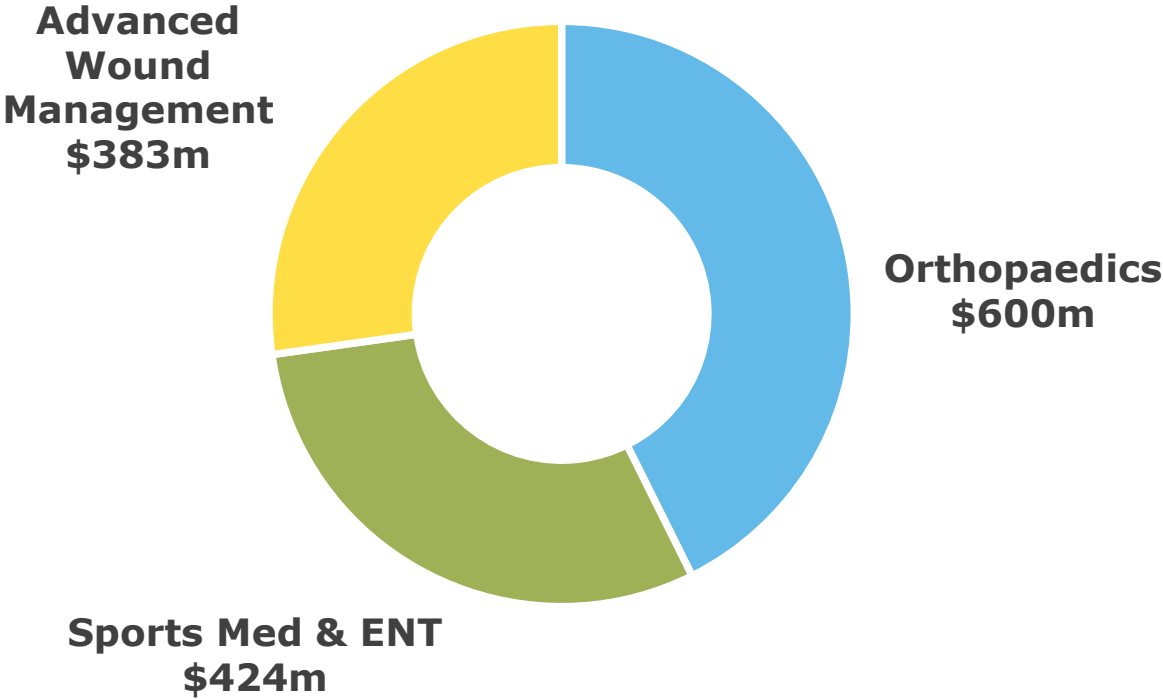
Revenue growth contribution by region



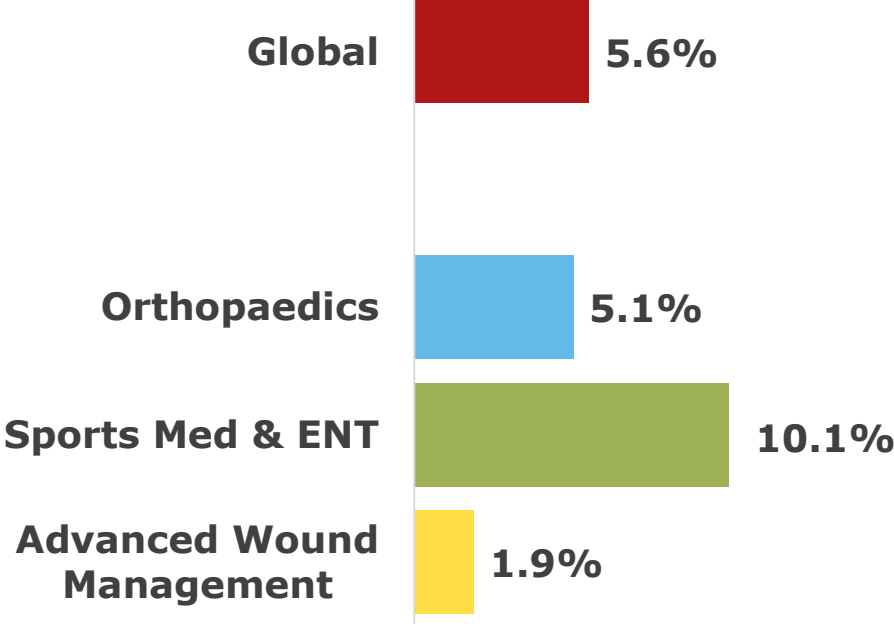
# Q4 revenue: \$1,407m +5.6% underlying, +8.7% reported



Franchise split



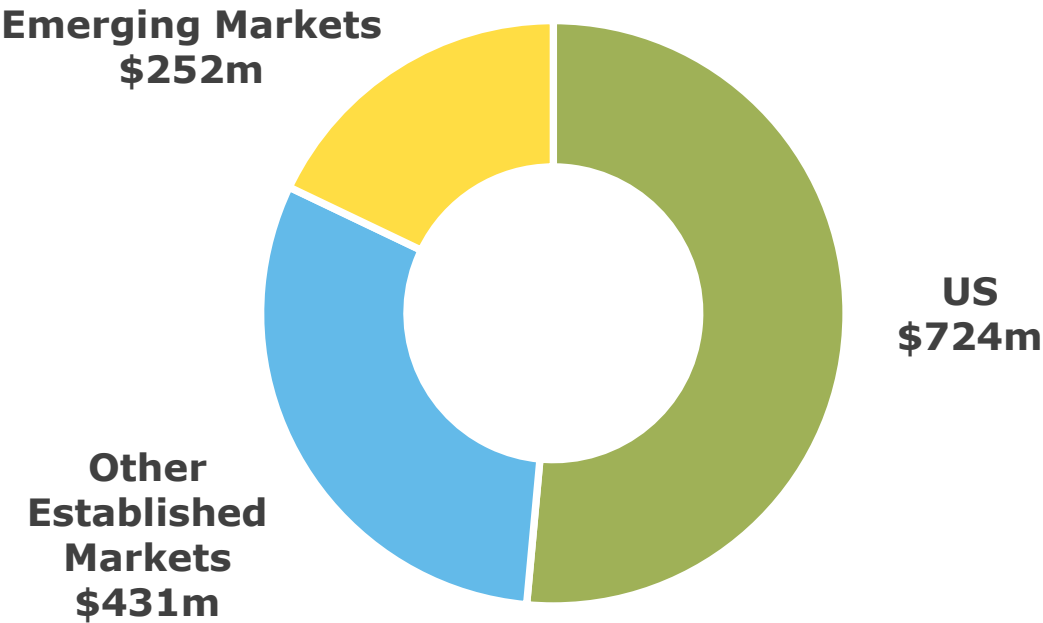
Franchise growth



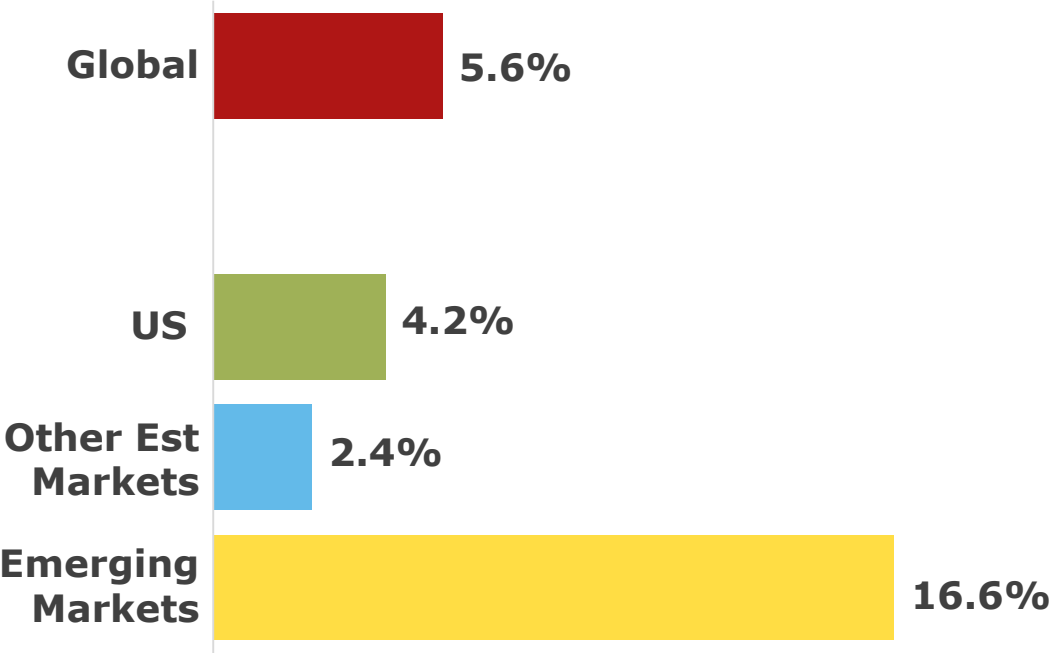
Q4 revenue:  
\$1,407m +5.6% underlying, +8.7% reported



Geographical split



Geographical growth



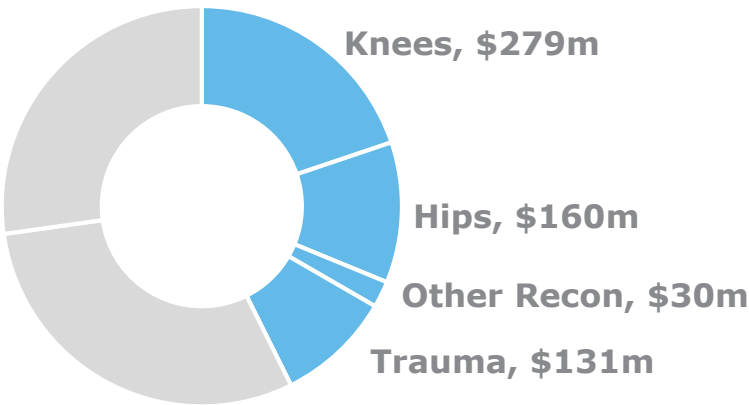
# Orthopaedics: \$600m, +5.1% underlying



## Revenue performance

	Q4	FY
<b>Knees</b>	<b>+4.7%</b>	<b>+4.4%</b>
US	+5.5%	+2.2%
OUS	+3.5%	+7.4%
<b>Hips</b>	<b>+0.7%</b>	<b>+2.1%</b>
US	+3.9%	+2.2%
OUS	-2.3%	+2.1%
<b>Other Reconstruction*</b>	<b>+31.6%</b>	<b>+12.6%</b>
<b>Trauma</b>	<b>+7.0%</b>	<b>+4.3%</b>
<b>Orthopaedics</b>	<b>+5.1%</b>	<b>+4.0%</b>

Q4 revenue split



## Commentary

- JOURNEY II driving Knees growth, growing robotics pull through
- First launch of OR3O Dual Mobility
- Double-digit growth in EVOS plating system and INTERTAN nails

\*Other reconstruction’ includes robotics capital sales, the orthopaedic joint reconstruction business acquired from Brainlab, and cement



# Sports Medicine & ENT: \$424m, +10.1% underlying

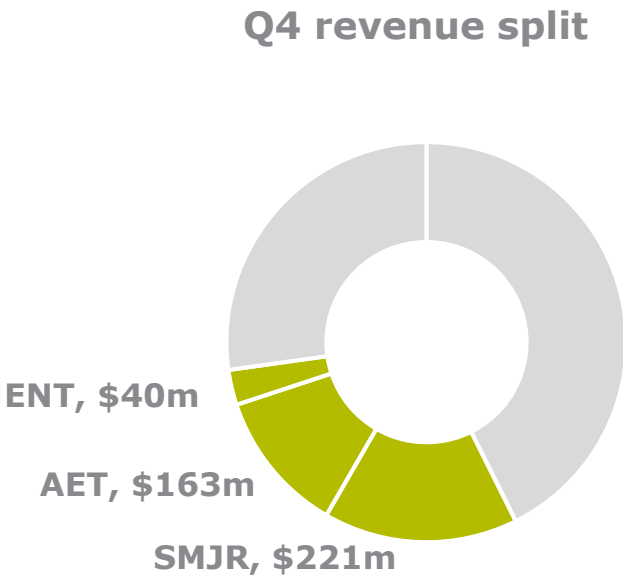


## Revenue performance

	Q4	FY
Sports Medicine Joint Repair	+14.0%	+12.3%
Arthroscopic Enabling Technologies	+5.1%	+0.8%
ENT	+10.7%	+6.7%
Sports Medicine & ENT	+10.1%	+7.0%

## Commentary

- Strong Joint Repair growth across shoulder and knee
- Acceleration from LENS 4K, Mechanical Resection, RF
- 510k clearance for WEREWOLF HALO wands in ENT



# Advanced Wound Management: \$383m, +1.9% underlying



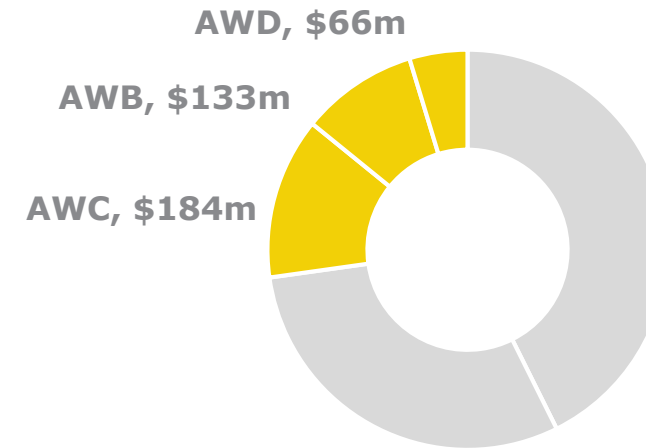
## Revenue performance

	Q4	FY
Advanced Wound Care	+0.7%	-0.2%
Advanced Wound Bioactives	-2.2%	-0.4%
Advanced Wound Devices	+15.2%	+15.7%
Advanced Wound Management	+1.9%	+2.2%

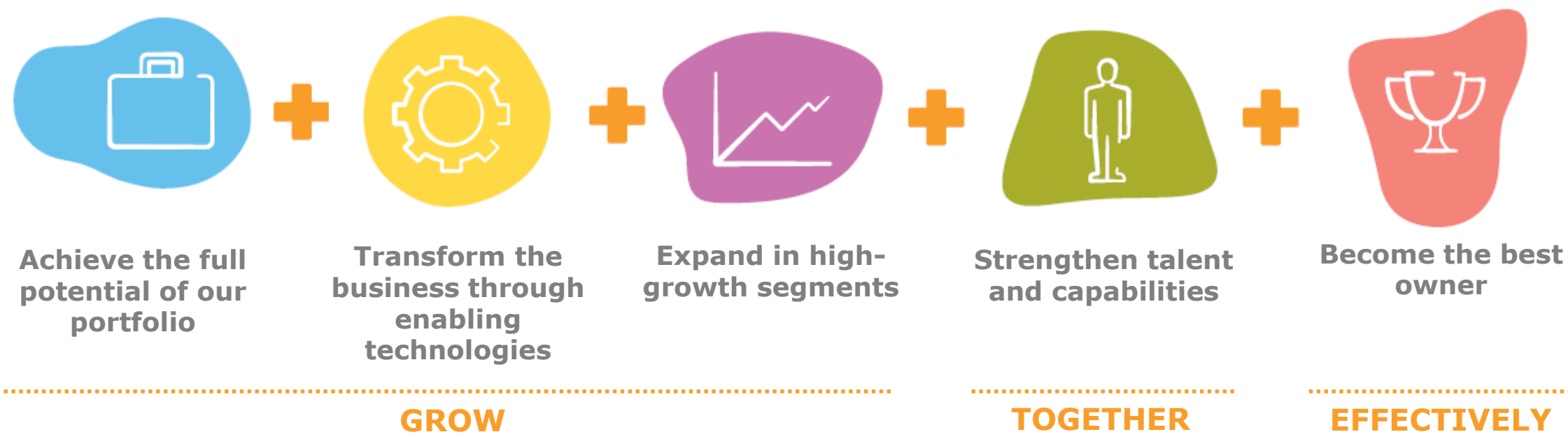
## Commentary

- Europe AWC returned to growth
- AWB reflects strong Q4 2018 comparable for Osiris
- Double-digit growth for both PICO and RENASYS

## Q4 revenue split



# Delivering on strategic imperatives

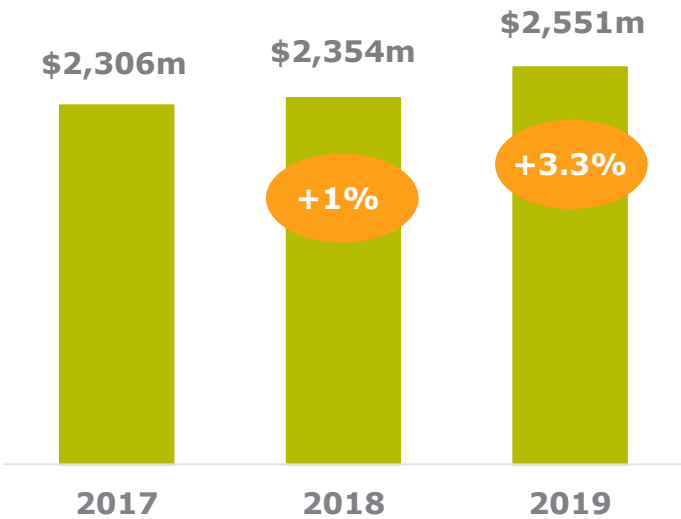


# Priorities for 2020: Commercial execution

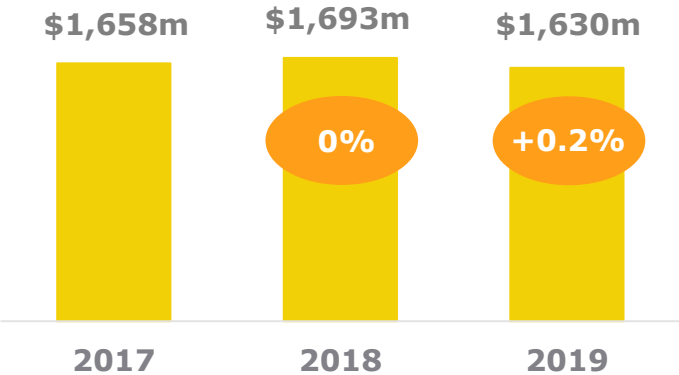


Achieve the full potential  
of our portfolio

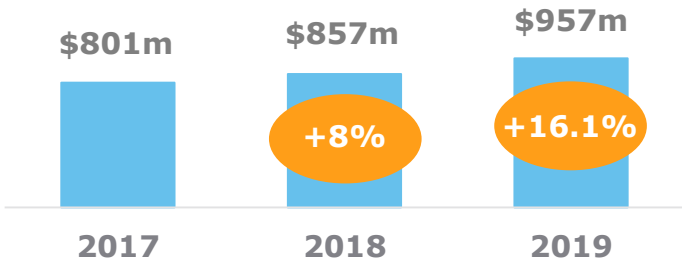
## US sales



## Other Established Markets sales



## Emerging Markets sales



All percentage changes indicate underlying growth

# Priorities for 2020: New generation of enabling technologies



Transform the business  
through enabling  
technologies

## Next generation robotics platform



## Biologics

*Grafix®*

*Stravix®*

**REGENETEN<sup>◇</sup>**  
Bioinductive Implant

## Connected arthroscopic tower



\*This device is not cleared by the US FDA for distribution in the United States.

# Priorities for 2020: Commitment to innovation



Expand in high growth segments

Launch key products



Next generation robotics platform



OR30<sup>◇</sup>  
Dual Mobility

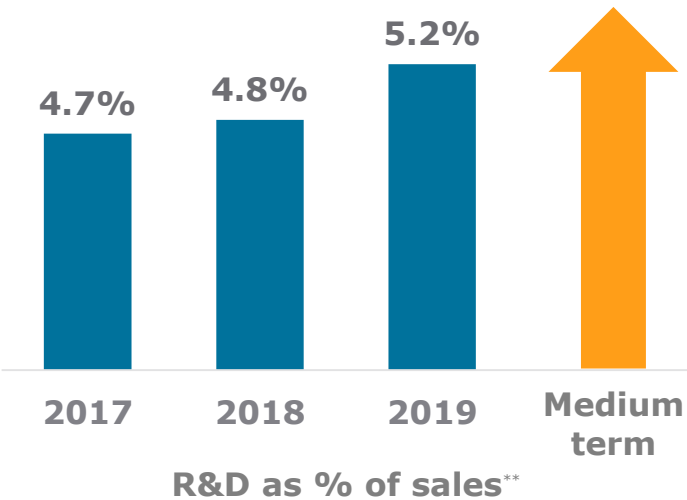


COBLATION<sup>◇</sup>  
HALO Wand



HIP 7+NAVIO<sup>◇\*</sup>

Increase R&D investment



Continue with M&A



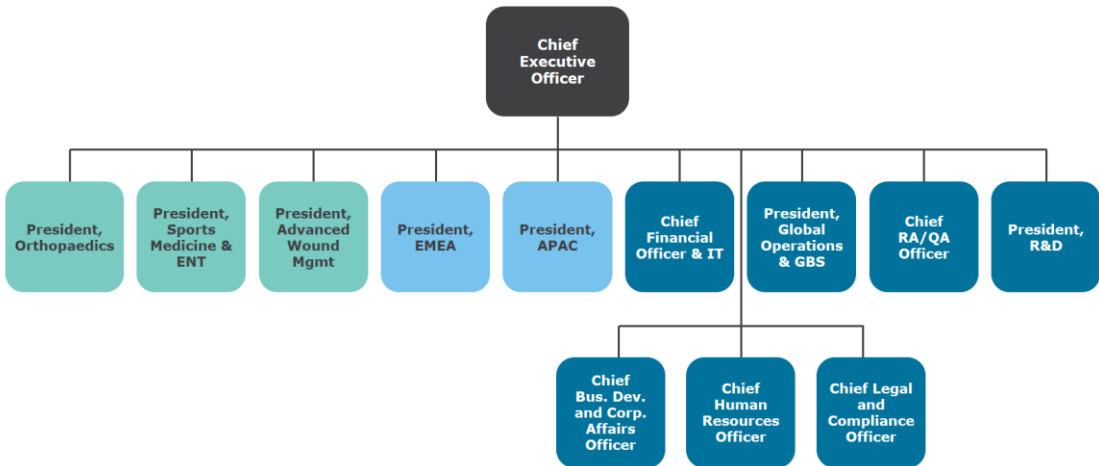
\*This device is not cleared by the US FDA for distribution in the United States.  
\*\*R&D as % of sales excludes non-trading items

# Priorities for 2020: Talent and engagement



Strengthen talent and capabilities

Build on franchise model and leadership team



Embed the new behaviours





Become the best owner

## Operations transformation

### Key initiatives:

- Optimised manufacturing network
- Rollout of lean methodology
- Distribution network and supply chain opportunities

## Commercial transformation

### Key initiatives:

- Increasing share of direct distribution
- Sales training and excellence
- Enhancing professional education



**Graham Baker**  
**Chief Financial Officer**

# Full year trading income statement



	2018 \$m	2019 \$m
<b>Revenue</b>	<b>4,904</b>	<b>5,138</b>
Cost of goods sold	(1,294)	(1,326)
<b>Gross profit</b>	<b>3,610</b>	<b>3,812</b>
<i>Gross profit margin</i>	73.6%	74.2%
Selling, general and admin	(2,250)	(2,375)
Research and development	(237)	(268)
<b>Trading profit</b>	<b>1,123</b>	<b>1,169</b>
<i>Trading profit margin</i>	22.9%	22.8%

**40bps increase  
in R&D ratio**

**80bps trading  
margin increase  
since 2017**

# Full year EPSA and EPS



	2018 \$m	2019 \$m	Growth %
<b>Trading profit</b>	<b>1,123</b>	<b>1,169</b>	<b>4%</b>
Net interest payable	(51)	(55)	
Other finance costs	(16)	(13)	
Share of results from associate	(6)	3	
<b>Adjusted profit before tax</b>	<b>1,050</b>	<b>1,104</b>	<b>5%</b>
Taxation on trading result	(169)	(211)	
<b>Adjusted attributable profit</b>	<b>881</b>	<b>893</b>	
Weighted average number of shares (m)	873	874	
<b>Adjusted earnings per share ("EPSA")</b>	<b>100.9¢</b>	<b>102.2¢</b>	<b>1%</b>
<b>Earnings per share ("EPS")</b>	<b>76.0¢</b>	<b>68.6¢</b>	<b>(10%)</b>
<b>Dividend per share</b>	<b>36.0¢</b>	<b>37.5¢</b>	<b>4%</b>

**2019 tax rate<sup>(1)</sup>:  
19.1%**

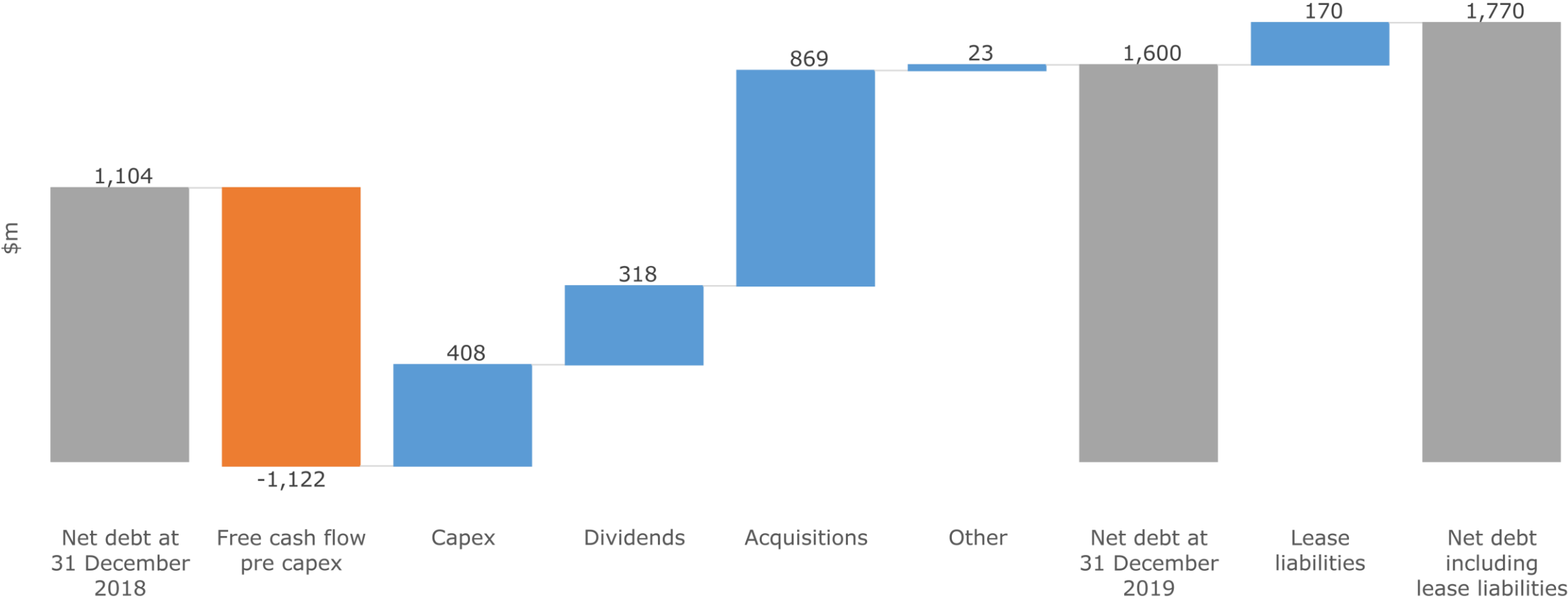
<sup>(1)</sup> Tax rate on trading result

# Full year free cash flow



	2018 \$m	2019 \$m
<b>Trading profit</b>	<b>1,123</b>	<b>1,169</b>
Share based payment	35	32
Depreciation and amortisation	335	368
Lease liability repayments	-	(46)
Capital expenditure	(347)	(408)
Movements in working capital and other	(195)	(145)
<b>Trading cash flow</b>	<b>951</b>	<b>970</b>
<i>Trading cash conversion</i>	85%	83%
Restructuring, acquisition, legal and other	(190)	(54)
Net interest paid	(52)	(52)
Taxation paid	(125)	(150)
<b>Free cash flow</b>	<b>584</b>	<b>714</b>

# Net debt and capital allocation



# Updated APEX targets

## APEX – Jan 2018

### Initial targets:

Benefits of \$160m p.a. by 2022

Total one-off costs of \$240m

~75% of benefits, >75% of costs by 2020



## APEX – 2020 update

### Updated targets:

Benefits of **\$190m** p.a.

Total one-off costs of **\$290m**

**Closing in full** by end of 2020

<b>2020</b>	<b>Sales growth:</b> <b>Underlying:</b> 3.5% to 4.5% <b>Reported:</b> 4.0% to 5.0% <sup>(1)</sup>	<b>Trading profit margin:</b> At or slightly above 2019 level	<b>Tax rate:</b> 18.5% to 19.5% <sup>(2)</sup>
-------------	---	--	---

2020 guidance assumes COVID-19 outbreak situation normalises early in Q2

<b>Medium Term</b>	<b>Sales growth:</b> Consistent growth above market	<b>Trading profit margin:</b> Ongoing improvement	<b>Tax rate:</b> 18.0% to 20.0% <sup>(2)</sup>
--------------------	--	--	---

<sup>(1)</sup> Based on the foreign exchange rates prevailing on 14 February 2020  
<sup>(2)</sup> Tax rate on trading result

# Summary



# Appendices

	February 2020
<b>Foreign exchange and other revenue impact</b>	
Impact of translational FX on revenue <sup>(1)</sup>	<b>(0.8%)</b>
Acquisition impact on revenue	<b>+1.3%</b>
<b>Non-trading items</b>	
Restructuring costs	<b>c. \$130-140m</b>
Acquisition and integration costs	<b>c. \$15-25m</b>
European Medical Device Regulation (MDR) compliance costs	<b>c. \$60m</b>
<b>Other</b>	
Amortisation of acquisition intangibles	<b>c. \$160-170m</b>
Income from associates	<b>c. \$5m</b>
Net interest <sup>(2)</sup>	<b>c. \$55-60m</b>
Other finance costs	<b>c. \$15m</b>
Tax rate on trading result	<b>18.5-19.5%</b>

(1) Based on the foreign exchange rates prevailing on 14 February 2020

(2) Includes 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 Growth %	Q3 Growth %	Q4 Growth %	Full Year Revenue \$m	Full Year Growth %
<b>Orthopaedics</b>	<b>0</b>	<b>1</b>	<b>5</b>	<b>4</b>	<b>3</b>	<b>3.9</b>	<b>3.6</b>	<b>3.4</b>	<b>5.1</b>	<b>2,222</b>	<b>4.0</b>
Knee Implants	2	3	4	3	3	4.1	4.3	4.6	4.7	1,042	4.4
Hip Implants	(2)	1	4	4	2	2.4	2.9	2.6	0.7	613	2.1
Other Reconstruction	30	27	43	45	36	6.9	3.5	1.5	31.6	79	12.6
Trauma	(2)	(5)	3	1	(1)	4.8	2.8	2.2	7.0	488	4.3
<b>Sports Medicine &amp; ENT</b>	<b>1</b>	<b>3</b>	<b>3</b>	<b>2</b>	<b>2</b>	<b>5.3</b>	<b>5.6</b>	<b>6.9</b>	<b>10.1</b>	<b>1,536</b>	<b>7.0</b>
Sports Medicine Joint Repair	5	7	8	8	7	11.0	11.9	12.2	14.0	794	12.3
Arthroscopic Enabling Technologies	(5)	(1)	(2)	(4)	(3)	(1.1)	(2.1)	0.8	5.1	591	0.8
ENT	6	5	5	3	5	4.2	6.3	5.3	10.7	151	6.7
<b>Advanced Wound Management</b>	<b>(2)</b>	<b>1</b>	<b>1</b>	<b>2</b>	<b>0</b>	<b>4.1</b>	<b>1.2</b>	<b>2.1</b>	<b>1.9</b>	<b>1,380</b>	<b>2.2</b>
Advanced Wound Care	0	2	1	2	1	2.0	(1.7)	(1.8)	0.7	714	(0.2)
Advanced Wound Bioactives	(12)	(6)	(7)	(3)	(6)	0.4	(1.2)	2.1	(2.2)	424	(0.4)
Advanced Wound Devices	2	9	11	14	9	16.4	16.0	15.4	15.2	242	15.7
<b>Total</b>	<b>0</b>	<b>2</b>	<b>3</b>	<b>3</b>	<b>2</b>	<b>4.4</b>	<b>3.5</b>	<b>4.0</b>	<b>5.6</b>	<b>5,138</b>	<b>4.4</b>

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 Growth %	Q2 Growth %	Q3 Growth %	Q4 Growth %	Full Year Growth %	Q1 Growth %	Q2 Growth %	Q3 Growth %	Q4 Growth %	Full Year Revenue \$m	Full Year Growth %
US	(2)	1	4	3	1	4.0	2.3	2.7	4.2	2,551	3.3
Other Established Markets <sup>(1)</sup>	(2)	1	(1)	0	0	(0.1)	(1.3)	(0.3)	2.4	1,630	0.2
Established Markets	(2)	1	2	2	1	2.2	0.9	1.5	3.5	4,181	2.1
Emerging Markets	9	6	10	8	8	15.3	16.2	16.0	16.6	957	16.1
<b>Total</b>	<b>0</b>	<b>2</b>	<b>3</b>	<b>3</b>	<b>2</b>	<b>4.4</b>	<b>3.5</b>	<b>4.0</b>	<b>5.6</b>	<b>5,138</b>	<b>4.4</b>

(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

# Trading days per quarter

	Q1	Q2	Q3	Q4	Full year
2018	63	64	63	61	251
<b>2019</b>	<b>63</b>	<b>63</b>	<b>63</b>	<b>62</b>	<b>251</b>
2020	62	63	63	64	252
2021	64	64	63	60	251

# Sustainability Targets



## People

### Creating a lasting positive impact on our communities

Between 2020 and 2030, contribute **1 million** volunteer hours to the communities in which we live and work.

Empower and promote the **inclusion of all**.

## Planet

### A medical technology business with a positive impact

Achieve an 80% absolute reduction in total life cycle greenhouse gas emissions by 2050, beginning by implementing **100% renewable electricity** (e.g. solar or wind) plans at our facilities in Memphis (US) and Malaysia by 2022, and at all of our strategic manufacturing facilities by 2025.

Achieve **zero waste to landfill** at our facilities in Memphis (US) and Malaysia by 2025 and at all of our strategic manufacturing facilities by 2030.

## Products

### Innovating sustainably

By 2022, include sustainability review in New Product Development phase reviews for **all** new products and product acquisitions.

By 2025, incorporate **at least 30%** post-consumer recycled content into all packaging materials.

By 2025, complete supply chain assessment of **all** suppliers and subsequent tier levels to assure compliance with our sustainability requirements.



**S+N**