Smith+Nephew
Q3 2024 Trading Report

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Business Update

Deepak Nath

Chief Executive Officer, Smith+Nephew

Summary

Good morning, and welcome to the Smith+Nephew Third Quarter Trading Update. As mentioned, I am Deepak Nath, I am the Chief Executive Officer, and joining me is Chief Financial Officer, John Rogers.

We have announced underlying revenue growth of 4% in the quarter. When we get into the detail, you will see that there were several moving parts, but I would like to call out two major components.

Firstly, we have continued to make good progress on our strategic growth priorities out of the 12-Point Plan as part of fixing Orthopaedics, returning our US Recon business to growth is an important milestone for us. We have made significant operational improvements around product supply and commercial execution over the last year, and these are now starting to come through in revenue.

Although orthopaedics performance across the world as a whole was slower, our recon business still maintained its momentum in the Other Established Markets, with growth accelerating over the first half. Aside from the effects of VBP, Sports Medicine also continued to perform well, and Advanced Wound Management delivered its best growth quarter this year. Both were further focus areas under the 12-Point Plan.

The second component was a weaker than expected quarter across our surgical businesses in China, costing almost two points of growth at Group level. In Sports, we saw the expected price impact of VBP, but with the related volume benefits yet to come through. And in Orthopaedics there was a further headwind from slower in-market demand with consequent channel adjustments, particularly late in the quarter.

Our assumption today is that both of these headwinds will continue for the rest of 2024 and into 2025. As a result, we now expect to finish the year with underlying revenue growth of around 4.5%, and trading margin expansion of up to 50 basis points.

The slower development of the VBP volume benefits also means it is likely to contribute more margin pressure in 2025 than we previously assumed. More broadly, we still see very significant margin expansion from the operating leverage, productivity improvements, and cost reductions that we are driving through throughout the business. However, this additional pressure will have an effect, and we now expect to reach a level of between 19% and 20%.

While it is disappointing to be making this change, I feel positive about our strategic progress. The growth headwinds from China will roll off, given we will lap Sports Medicine VBP as we move through 2025, and China Recon sales will align with end market demand.

In contrast, our better performance in the Established Markets is more structural, driven by improvements under the 12-Point Plan. Operational metrics on product availability and capital have remained strong; commercial execution improvements in US Recon have brought customer churn down; and we continue to deliver on longer-term growth drivers such as robotics adoption and innovation delivery. Putting all of that together, our transformation to a higher growth company with the ability to drive productivity and operating leverage through the P&L will remains on track.

I will come back to that later, but for now, I will hand over to John to take you through the detail of the quarter. John?

Financial Update

John Rogers

Chief Financial Officer, Smith+Nephew

Q3 2024 Summary Revenue Performance

Thanks, Deepak, and good morning, everyone.

Revenue in the quarter was $1.4 billion, with 4% underlying growth. Foreign exchange was neutral overall, so reported growth was also 4%, with trading days unchanged from the prior year.

I will come to the business detail of the business units in a moment, but as you can see, geographic differences were an important factor in the quarter.

Our Established Markets business remained strong, and accelerated sequentially, with 4% growth in the US and 6.8% in the Other Established Markets.

However, the Emerging Markets were broadly flat, as Deepak has mentioned, with a disappointing quarter in China.

Orthopaedics

> *Positive growth in booth of US Hips and Knees; weak quarter in China, lower T&E set sales*

For the business unit performance, I will start with Orthopaedics, which grew 2.3% underlying.

A highlight of the quarter was positive growth both of US knees and Hips, at 0.7% and 3.2% respectively. US Recon has been later to improve than other areas of Orthopaedics, so this is an important step following the operational and commercial improvements in recent quarters. It has taken longer than we initially wanted and there are still further improvements to be made, but the customer churn of recent quarters has reduced, and we are on an improving trajectory.

Recon growth outside of the US was slower overall than in recent quarters, but with significantly different trends by regions. On the positive side, Europe and the Other Established Markets continued their recent momentum with growth ahead of the first half.

However, China lowered overall OUS growth by around five percentage points in each of Knees and Hips. There has been a spell of reduced end customer demand, and as a result, sales to our distribution partners significantly slowed as they reduced their holdings of implants in response, particularly towards the end of the quarter. This is ultimately of course a temporary effect, but our expectation is that orders will remain low through the fourth quarter, and into 2025.

Other reconstruction grew by 13.7%, reflecting the ongoing growth of robotics capital and consumables. Utilisation continued to rise during the quarter and reached almost a third of our US Knees being placed with CORI.

Trauma & Extremities grew by 3.3%. The EVOS plating system has been a key growth driver for some time now, and that continued with strong double-digit growth and acceleration over Q2. Offsetting that was a slower quarter for some of our legacy systems, and in particular, lower sales of whole surgical sets. This is a dynamic that can drive variability in Trauma growth, given high value to single transactions, and was a large swing factor in the quarter. We expect higher growth to return in the fourth quarter as we continue to drive EVOS and roll out the AETOS shoulder.

Sports Medicine & ENT

Continued strong business unit performance excluding VBP

Sports Medicine and ENT grew 3.9% underlying in the quarter. Within that, Joint Repair growth was 0.1%, reflecting the headwind from VBP in China. Excluding China, Joint Repair growth would have been + 9.4%.

Q3 was the first full quarter since VBP implementation, and the new pricing is now in place across all provinces. The scale of the headwind reflects the price impact that was already known, and also that the anticipated volume benefits from high utilisation are yet to come through.

Growth was strong across all other regions, with REGENETEN again a major driver, primarily from increased adoption in rotator cuff procedures. There remains a very significant opportunity from global penetration, which was still at an estimated single-digit percentage of procedures in 2023. In addition, we see expansion into new procedures such as foot and ankle.

Arthroscopic Enabling Technologies grew by 15% in the quarter, with robust growth across all categories of the arthroscopic tower and from Werewolf Fastseal. The quarter also benefited from a relatively soft prior year comparator.

The -6.8% decline in ENT was more than expected, although also primarily reflecting prior year effects, as we lapped an unusually strong Q3 2023 which had benefited from one-time backorder clearances. We expect Q4 to return to more normalised growth for both AET and ENT.

Advanced Wound Management

Broad-based growth across regions and categories

Looking now at Advanced Wound Management, which grew +6.5% in the quarter. That represents a significant improvement over the first half, and our strongest quarter this year, with broad-based strength across regions and categories.

Advanced Wound Care grew +3.4%. The largest driver was our Allevyn range of foam dressings, and also with good growth coming from our anti-infectives portfolio.

Bioactive's growth of +8% included double-digit growth in skin substitutes. This follows the launch of Grafix Plus in the second quarter, which is a new, easier to handle version in our lead product family, targeting the growing post-acute market. Clearly, there is a lot of interest in the Medicare Local Coverage Determinations for the category, but as yet, we have not seen market behaviour noticeably changing in anticipation.

Finally, Advanced Wound Devices grew +11%. We had strong growth from both PICO and RENASYS, and a good quarter from the LEAF patient monitoring system, as we continue to expand the market in Pressure Injury Prevention.

Outlook

Growth and margin guidance updated for China headwind

So, I will finish with our updated outlook. For 2024, we continue to expect growth acceleration into the end of the year. That should come from the ongoing improvements in Established Markets Recon through the 12-Point Plan; a return to higher growth of Trauma & Extremities in the fourth quarter; and the benefit of course, of two extra trading days, although we expect the effect to be less than proportional given the days fall in the lower volume holiday season.

However, we also see our China business remaining a headwind in Q4, due to the slow development of volume benefits from Sports Medicine VBP, and continued slow shipments to our Recon distribution partners.

As a result, we expect underlying revenue growth of around 4.5% for the full year, which is below our previous guidance range of 5% to 6%.

This also feeds into our trading margin outlook. As I set out with our H1 results, margin expansion for 2020 should come from the combination of productivity gains under the 12-Point Plan operational leverage, which together should more than offset the headwinds from input cost inflation and VBP.

These same moving parts still apply, but with a reduced tailwind from the operational leverage reflecting our updated growth outlook and an increased VBP headwind, we now expect year-on-year trading margin expansion up to 50 basis points. Our target of improving trading cash conversion is unchanged, at around 85%.

We also expect the China headwinds to spill over into next year. Our expectation was that the 2025 margin impact of sports VBP could be largely mitigated, but the slower development of offsetting volume benefits to the known pricing impact, means VBP is now likely to be a more meaningful incremental headwind. More broadly, we still see the same margin tailwinds that we previously set out, from the operational leverage, productivity improvements and the cost reductions that we are driving throughout the business, but the combination of the 2024 baseline and this additional headwind in particular will also have an effect.

As a result, while we still see significant expansion in 2025, we now expect a trading margin of 19% to 20%.

And with that, I will hand back to Deepak.

Strategy and 12-Point Plan Update

Deepak Nath

Chief Executive Officer, Smith+Nephew

Structurally Improved Growth Visible ex-China

China headwind from effects that roll off in 2025

Thanks, John.

As I mentioned in my opening remarks, the quarter has been a story of two opposing factors. One is that we are working through significant growth headwinds in China, in both Sports

Medicine and Orthopaedics. However, outside of China, the rest of the business is showing the higher growth profile we were aiming for when we initiated the 12-Point Plan.

To put some numbers around that, in the last four quarters, China has gone from being broadly neutral to Group growth, to an almost two-percentage-point headwind in Q3. Growth ex-China of 5.9% in the quarter, and 5.1% year-to-date, is well above Smith+Nephew's pre-COVID Group average of around 3%. Importantly, that is also a level that can typically drive operating leverage throughout the P&L.

Just putting China in context, it is still 4% of Group sales, and one of our largest markets. As with many other companies in the medtech sector, we are dealing with a rapidly changing market. The aim is to adapt, and to build a sustainable business there.

However, it is also important to recognise that the current growth headwinds should unwind as we move through 2025. In Orthopaedics, our sales to our channel will have to converge with end-user demand over time, and in Sports Medicine, we will fully annualize the VBP impact after the second quarter.

12-Point Plan as Driver of Growth and Productivity

In contrast, our better growth story in the rest of the business is more structural and what is behind that is a 12-Point Plan.

I am sure this slide is familiar to you by now, but it is a reminder of what we have done, on both growth and productivity. Specifically for Orthopaedics, we have rewired our commercial delivery, including better connecting supply and demand, better asset utilisation with our instrument sets, and driving our key innovative products.

12-Point Plan Driving Growth in US Recon

> *Acceleration followed improvement in KPIs; progress beyond initial targets show new ways of working becoming embedded*

The return to growth of US Recon in Q3 is another example of the 12-Point Plan initiatives converting into commercial outcomes.

We have talked in previous quarters about the gradual improvements in operational KPIs, as lead indicators of improved growth. Availability of implants and capital had mostly reached our goals by the end of 2023, with knee capital availability the remaining item that got to target in the second quarter of 2024.

Improved product availability and capital deployments, has been a repeating roadmap for performance improvement. Even so, it was important to show that we could also apply this to the largest area of Orthopaedics, as well as the earlier improvements outside the US and in Trauma.

These improvements need to be sustained for the long term, and that means the new ways of working under the 12-Point Plan have to become lasting changes to the way we do business.

We are starting to see evidence of that in our operational metrics. Key KPIs that we have used to measure progress and drive accountability in the 12-Point Plan have remained strong after reaching their targets, and many have continued to progress beyond the original goals, as a culture of continuous improvements starts to become embedded in the company.

Some examples are shown on the slide. For implant availability, US non-set LIFR for key products reached our target level at the end of 2023. By the third quarter of this year, we had not just held onto those gains, but it even improved further, with the KPI more than three percentage points above an already high target level. The picture is similar outside the US, with international metrics of product availability also showing further improvement in 2024.

Overdue orders have shown a similar pattern, falling by 85% for US knees in 2023, and then another 30% so far in 2024. And on capital, our kit health, which is the percentage of sets that are available for use, reached our target level at the start of the year, and has improved by another five points since.

There is more to do in the US, and it will take time, but I have set the team the realistic target of being at least at market growth by the end of 2025.

Good Cadence of Innovation in High-Growth Categories

Another key element of a growth story is innovation. Through consistent delivery, and good launch execution, new products from the last five years provided almost half of the total revenue growth in 2023.

We continued with a good cadence of delivery in Q3, across implants, instruments and evidence generation, and in a range of high-growth categories.

In recon, we had the first procedures of Catalystem. This is our new shorter hip stem, suited to the direct anterior approach, which represents now around 50% of the US market, that is growing at double-digit. Initial feedback has been positive, on the precision of placement, procedural efficiency, and reproducibility.

In Extremities, we have launched patient-specific instrumentation for total ankle replacements. This strengthens our position in another high-growth market, which is expected to grow at around 7% CAGR.

In Sports Medicine, we have continued the stream of incremental innovation with 510k clearance for Q-FIX Knotless, a new version in our established Q-FIX range of suture anchors.

And we have continued to generate clinical evidence to support our earlier launches. In August, we presented new data for our cementless knee, at the Interventional Society for Technology in Arthroplasty. A 153-patient study found 100% survivorship of the tibial and femoral components at one year, with supportive patient-reported outcomes. Radiographic data also indicated stable fixation one year after implantation, which is known to be predictive of long-term stability.

Summary

Overall, this was a somewhat complex quarter, with a number of moving parts. It is disappointing that the headwinds in China have offset a lot of good work in the rest of the business, and that will have an impact as we go into 2025.

Coming off of our 25 target is not what we wanted, but it is the right thing to do, balancing investment in the business for sustainably higher growth and returns, with delivering meaningful improvement year-on-year.

We are still making good progress in the fundamental transformation of Smith+Nephew. Over the last year, the 12-Point Plan has enabled us to turn around the performance of most of our Orthopaedics business. And although there is further still to go, the last trailing area of US Recon has now also started to grow.

VBP aside, Sports Medicine and Wound Management continue to perform well, our innovation investments are delivering growth, and we are seeing signs that the culture of focus and accountability in the 12-Point Plan is becoming embedded as a new way of working in Smith+Nephew, helped by the move to the global business unit structure.

Today was a sales update, but our productivity initiatives, including manufacturing optimization, and our work to improve cash generation, and to focus our investments for higher returns are also continuing. I look forward to updating you on progress in the new year.

Now, we will take questions.

Q&A

Jack Reynolds-Clark (RBC): Hi there. Thanks for taking the questions. Three for me, please. First, on China Orthopaedics.

Can you just talk about what the drivers were that lower end market demand, was this unexpected, and do you expect a rebound, or are they lost volumes?

Then on the China Sports VBP, what gives you confidence that the volumes will expand, and can you give a rough estimate of what your expectations are around timing for that?

And then just on the margin downgrade for next year, and I guess to a degree for this year, you said this is mostly the results of China. How much of the downgrade is from other sources, and how much is from China? Thank you.

Deepak Nath: Good. Thanks, Jack. Thanks for the questions. On China Recon, what we are seeing is there is a VBP component of the market, and there is an off-VBP component of the market. What we are finding is in the component of the market that is not covered by VBP, the in-market demand has been much, much weaker than expected, and that had an impact on top-line, especially. Secondly, the adoption of robotics, there is a lot of uncertainty around that, and we are continuing to see that adoption of robotics has been quite muted at best.

On the Sports side, what we had assumed was with the implementation of VBP, that there was going to be growth in the market that would translate into higher volume for us, for our business. And we did not see that across the market, and we did not see the volume uplift in terms of demand for our products. And as we go into 2025, the current outlook assumes that we will not see that as we go into 2025. In other words, in Joint Repair we will see the impact of price, but not the increased demand for our products. And that translation of those two things is what results in the downgrade. So, when you bridge over into the impact of that, the majority of the volume, the margin delta, comes from the combination of these two factors.

The US Recon business did turn positive. It is a bit slower than we had expected. That impacts the outturn a little bit, but that is a smaller effect on all of this. So, by and large, the impact from +20% into what we are guiding for today, is China Recon and China Sports.

John Rogers: And Jack, maybe if I can just build on Deepak's comments there, and give you some indications as to the movements in the margin bridges that I set out in the first half interim. Obviously, we will provide a lot more detail at our prelims, but just to give you a little bit of a flavour, if you remember the margin bridge that we gave at the half-one on half-two 2023 to half-two 2024 had a number of different components to it.

The input cost, inflation and merit component, we expect to be the same. The FX component that we said at the half would be a drag of about 50bps, we actually think that will be favourable. That will move to a drag of 30bps. So it is a 20bp improvement versus what we said at the half-one. Then when you look at the impact of China VBP pricing, and also the impact on the revenue leverage that Deepak's just described, we think that could be somewhere in the order of 30-50bps or so, something like that. That is a directional number. And then we see the manufacturing and distribution and expense savings being exactly the same. So, as we said at the half.

When you add all that together, that is a little bit of a drag on the half-two margin, hence why we are now saying margin accretion of up to 50bps for the year.

Coming now to the bridge for 2024-25, again, I can take you through the different component parts. Again, the input cost, inflation and merit, we did not give the exact numbers, but we think that is probably going to be actually 10bps worse than we said at the half. And then you have got the combined benefits of the China VBP, and the revenue leverage that Deepak just described. We think that could be in the order of 40bps or so. These are broad and rough numbers, but giving you a little bit of a flavour. And then, of course, the savings, we think, will be exactly in line with what we guided at the half. So again, when you take that, you have got a bit of a headwind of around a range of 50bps or so, versus where we were. Hence, why we have moved from the target of +20% to 19-20%. So hopefully, that gives you a little bit of a flavour as to the margin bridges, both for the second half and also for the next financial year. And the vast majority of the delta, notwithstanding Deepak's comments on US, also, the vast majority of delta is driven through China, and that is a combination, just to be clear, of both Sports VBP, and also ortho volumes.

Jack Reynolds-Clark: That is super clear. Thanks very much.

David Adlington (JP Morgan Cazenove): Yes, morning, guys. Thanks for the updated margin targets for 2025. Just wondered if you could help us, how you are thinking about revenue growth for 2025? And then more broadly, just in terms of the margins, the more than 20% that you have walked away from for 2025, is that still a valid target, and do you expect still to be able to generate some operating leverage beyond 2025 to see further margin progression? Thanks.

Deepak Nath: Yes. On the top-line, David, thanks for the question. We will give detailed guidance when we come back in prelims, but revenue growth is broadly in line with what we had indicated, around 5%. And so, that remains in place.

As far as the margin is concerned, so, as John mentioned, the delta really comes down to the impact of Sports, and the volume uplift not coming through in the back half of 2024 and as we go into 2025.

John Rogers: However, just to be clear, David, in terms of your question on the 20%, we do expect to get to 20% margin. If you remember last, I think at the half we talked about margin accretion coming through in 2026 and 2027, we expect that to continue to be the case, as a consequence of annualization of cost savings and also additional cost savings coming through. Obviously, we are not going to set out guidance at this stage, for 2026 and 2027, but we do expect to get to the 20%, and we do expect to see continued margin accretion through both 2026 and 2027.

David Adlington: Perfect. And then maybe just to follow-up on VBP in China, the lack of volume growth coming through, is that a market phenomenon, or do you think you are losing share?

Deepak Nath: It is a bit hard to parse. There has definitely a market effect of what we had anticipated is that on the back of the price implementation that more and more patients would be treated with these procedures. We are not seeing evidence of that. There is some evidence that there are local products, there is an uptake of local products that are expensive, there is a little bit of share loss that we see, but it is hard to parse that this early stage. The big effect is market, but we are seeing some level of local companies coming into the space that we previously occupied.

David Adlington: Got it. Thank you.

Hassan Al-Wakeel (Barclays): Hi, good morning. Thank you for taking my questions. Three for me, please.

So firstly, just following up on the 2025 revenue point that you talked to, Deepak, and your comment of around 5% in line with your midterm outlook, could China continue to have an impact, and how do you think about US backlogs coming down and utilisation, given hip and knee growth is considerably higher than pre-COVID levels?

Secondly, even after adjusting for China, you look to be losing considerable share OUS in Knees, based on peer reporting. If you could talk to this, and what you are seeing on the ground?

And then finally, if you can talk to the Trauma franchise and the strength here, and what you are seeing from a competitive standpoint, given some launches and whether you expect any impact here going forward? Thank you.

Deepak Nath: Sure. So China impact, as you mentioned, we expect that to continue into 2025. In the US, as I have said previously, I have been a little loath to comment on ortho market or recon market in the US, from our vantage point, and that is because we have had our performance challenges, and it could be difficult for us to parse what is market, and what is us. So it is a bit tough to call. Right now, we are focused on operational improvements in-house, and as I indicated, there is quite a bit of progress that are underneath these numbers. And one proof point is of course the US starting to return to growth, against regional comps.

So for us, on the back of those operational improvements, we expect to participate better in a market than we have. Our assumptions are, in terms of modelling, do not expect a continued frothy market in the US, for us to deliver what we have said we are going to deliver. We are expecting normalised markets for us to be able to operate, and on the back of operational improvements to participate in that market.

As far as the backlog in the US, like I said, it could be hard to parse that, given our position in that market today.

In terms of our share in Knees, in general, our product availability in Knees improvement, has lagged that of Hips. And OUS came first, as I have indicated, the SKUs that are mostly relevant outside the US, improved before those SKUs that are relevant to the US, particularly OXINIUM-related US and certain OUS markets, Japan, Australia being key among them. On the back of improved availability on OXINIUM-related products, we expect Knees to follow the course that Hips have. It is the same organisation, by and large, that represents both the Knees and the Hips portfolio. So we expect Knees to also recover in the way that Hips have. So Knees are just lagging, I would say, a quarter or two behind Hips in terms of performance. So I expect that to recover, OUS as well.

In terms of Trauma, we are very encouraged by the progress we are making with EVOS. As we called out in our release, double-digit growth with EVOS. We believe we have got a great system there. We are not blind to competitive activity. We do expect particularly the launch of a competitive system. We do not underestimate that competitor. However, we do feel good about EVOS and the traction we have gotten so far. There are some set sales-related activity that introduces volatility into the Trauma numbers quarter to the next. So we had relatively high set sales in Q3 of 2023, and not so much in 2024. So that impacted numerically the numbers, along with some of the legacy Trauma products, for which we had a slow quarter in Q3. However, by and large though, we are very encouraged by how EVOS is doing, and we believe we are poised to take share in the core Trauma segment.

John Rogers: And Hassan, maybe if I can just build on Deepak's comments on your question around Knees outside the US, actually, if you look at our overall knee performance, and across the entire Group, and you strip out China, the Q3 growth was not dissimilar to the half-one growth on Knees. I would argue that the bulk of the dynamic that you are seeing outside of US Knees, all coming through from China. We are continuing to see the positive trajectory on US Knees, across the other markets, that we saw in the first half.

Hassan Al-Wakeel: That is very helpful. If I can just follow up on that competitor, that competitor is also talking about record installations on robotics, so very interested to hear how CORI installations trending through the quarter, both in hospitals and ASCs, please?

Deepak Nath: Yes, sure. We do not give specific numbers every quarter. And just to reiterate what I have said on previous calls, for us, we are looking at placements and utilisation, and I am pleased to report that we are doing well. We are continuing to place, and where we are placing, continuing to see nice uptake. Today, we are up to roughly a third of our knees going through CORI, so it is a pretty healthy number and that is an increase over where we were at this point last year.

Very encouraged by the traction we are getting across a range of healthcare settings and hospitals, teaching institutions. And in ASCs, the proportion of our placements and ASCs are slightly above our overall market share. So we are actually getting more traction, relatively speaking, in ASCs than elsewhere. So overall, very encouraged by the uptake. We will come back at the full year, the prelims, to give you a picture of how we did in 2024 versus 2023.

Hassan Al-Wakeel: Perfect. Thank you very much.

Deepak Nath: Sure.

Robert Davies (Morgan Stanley): Yes, morning. Thanks for taking my question. My question was just circling back on that OUS knee performance. You mentioned having ex-China, you were in the same ballpark territory as you were in the first half of the year. However, just looking at the sort of performance relative to your peers globally, everyone else seems to be in high single-digit or double-digit territory versus you guys in low single-digit negative. Just I am not entirely clear why the performance differential has showed up in this quarter because I think over the last couple of years you have clearly been making pretty good progress in the OUS knee business. So that, that was my first question.

Deepak Nath: Yes, Robert, I think, overall, just to build on what I said and what John indicated, OUS, by and large, the factor that is different is China. When you take China out of it, there are some markets on a smaller scale, but there are ins and outs. However, overall, if you look at our performance over the last couple of years, several quarters, I would say, we are in a fairly robust place with recon OUS ex-China. With knees in particular, Knees and Hips, as I mentioned, when you double-click on markets and specific SKUs, the recovery from a supply standpoint that had been hampering us, in 2022 and 2023, was not created equal. As I mentioned, Hips recovered before Knees did. However, within these, as I said, OXINIUM was slow to recover. Look at markets where OXINIUM is relevant, it is the US, it is Japan, and it is Australia, and to some extent, Korea. So when you double-click on that, you will see a little bit of difference in performance by market. And so that is the real, high-level explanation for differences.

However, overall though, when you strip out China out of it, I am encouraged by the translation of product availability on the back of improved commercial performance translating into a reasonable set of numbers OUS. And like I said, with the US, we have got one data point, a little bit of a green shoot, and we expect to build on that, as we go into Q4 and beyond.

Just real quick, Robert, one other thing, as you parse our performance, we do talk about our robotics separately. So in terms of like-for-like performance, you do have to do a bit of work to arrive at an apples to apples comparison. So that could be another thing to guide you to, not to say that you are not doing that, but it is something that a little bit of a difference in terms of how we report versus our competitors.

Robert Davies: Thank you. Yes, my follow-up question was just in terms of the elements of the 12-Point Plan, and where we are on the kind of medium-term outlook. What are the biggest elements in terms of moving the numbers, over the next one to two years, that you still feel like you are not making as much progress on, as you maybe thought before? Is there anything above and beyond China that you still feel this are still options to move the needle really?

Deepak Nath: Yes. So the buckets, John took you through, I will not repeat what John said because essentially, he was referencing the bridge that we put forward at midterms is literally going off of the charts that we had there. And so he gave you the 2023-24 bridge, and the 2024-25 bridge. The building blocks are all the same. The biggest delta there is the China effect. I called out US Recon, but it is in the noise in terms of where we are relative to where we expected to be around this period of time.

Bottom line, the productivity measures that we have put in place, not only in the recon, on the Orthopaedics side, but in large, those are coming through just as expected. The steps we have taken in recon to optimise our network, to bring capacity into line, we expected an uplift in terms of the impact of those actions have already happened into 2025. Those we expect to come through just as we had laid out.

Operating leverage is another part, on the back of improved supply. And all of the rewiring improvements that we have made in connecting supply and demand, and all of the commercial process improvements that we have made will come through, has come through, and will continue to build on that. And those are very much in line with where we expected. Yes, am I 100% pleased with the pace of recovery in the US? No. However, it is within the zone of what we had assumed when we provided the guide.

So in very real terms, the building blocks really are just as we had laid out at the midterm, and which was in fact, in itself a build off of what we have said the year before. And those all remain intact.

John Rogers: And maybe two builds from my side. As Deepak said, the recovery in our US Recon maybe not quite as strong as we would have liked to see, but what is, I think, really encouraging is the progress that is being made quarter-on-quarter. So just to remind you, US Knees, Q1, -5%; Q2, -1.7%; Q3, we are now at +0.7%, and we expect to make further continued progress in Q4. So that is encouraging. If you look at the Hips, -1.9% in Q1, +1% in Q2, +3.2% in Q3, and then we expect to be again another uptick in growth in Q4. So we are very much encouraged by the progress that we are making in terms of US performance.

And then I think a second build is, obviously, we set out the savings that we expect to deliver in 2025 at the half-one interims. Obviously, as we now go through our detailed bottom-up budgeting process, we are pleased to say we have got better and better visibility of those savings, and how they are being baked into our plans. And so, again, we can feel reasonably confident in our ability to deliver that cost improvement year-on-year as we progress through 2025.

Deepak Nath: And just again, just to go back to the point that I made in answer to the last question, Robert, the numbers that John recited for Knees, you have got to add the robotics component that primarily impacts Knees. So when you put that on, and you compare ourselves to competitors, what you see is clear evidence of us gaining ground OUS, narrowing the gap. In the US, we are kind of flat flattish this year relative to competitors. So when we talk about all of the KPIs, all the operation improvements, translating into financial benefit, that is what we are really looking at. And in Q4, we expect to further build on that.

Robert Davies: Sorry, just to finish off, the OUS Knees business. Are you still expecting that to be negative now for the next sort of year or so? Because you have some pretty difficult comps there for at least the next three or four quarters, no?

Deepak Nath: No, we are not expecting that to be negative. We expect to go into positive territory.

Robert Davies: Okay, that was all my questions. Thank you.

Richard Felton (Goldman Sachs): Thank you. Good morning. Just one question from me, and it is following on the destocking impact in China.

My question is: How much visibility do you have on the inventory that is being held by your distributors? Is there more adjustment of that inventory to come and if so, how many more quarters can we expect that destocking impact to affect your performance? Thank you.

Deepak Nath: Yes. So we have got, I would say, reasonable visibility. We have taken steps over the last couple of years to get better and better line-of-sight into that inventory. So we closely monitor in-market sales and our shipments into distributors. So we have got a reasonable line-of-sight. Bottom line, in terms of how long it takes for us for our distributors work through the inventory, it really depends on in-market sales. So what we are seeing is the dynamic around local competitors versus demand for multinational product and the relative incentives from one versus the other. So it depends a bit on how the demand for multinational products, and including, ours shapes over the course of the next couple of quarters.

So in the outlook that we provided, we certainly expect Q4 to be as it was in Q3, in other words, for distributors to work through the inventory that they have got. And we expect in the first half of 2025 for that to persist. And beyond that, so the days of inventory to go down from that point, and then to recover back up towards the end of 2025. So bottom line, we expect this mismatch to be in place for the next couple of quarters. Because a lot of things about China are uncertain, as you know, Richard, and so we have taken a call on this in providing the outlook.

Richard Felton: Thank you very much.

Graham Doyle (UBS): Morning. Thanks for taking my question. It is just one, but it is a slightly more bigger picture one of the strategy, which is ultimately, this 12-Point Plan has been in place now for two years, and a lot of money has gone through the P&L to execute it. And there are lots of slides showing progress on supply meeting demand, and things like that. However, your margins are flat and revenue, as we can see now, is slowing. So I suppose from your perspective, when do you assess this plan and decide it does not work if it continues to not work? And if it continues to not work and deliver the financial results, would you look at doing things like releasing value through asset sales, shutting down businesses that do not generate cash? Just because we are at a point now where at some point there needs to be a pivot, unless we see tangible results from the financial markets pretty soon, I would have thought. Thank you.

Deepak Nath: Yes. Graham, thanks for the question. So yes, we had indicated kind of a two-year timescale to the top-line plan. We are coming up on that. And we had indicated 2025 was to be a pivotal year where we were expecting to see a step-up in margin. Obviously, the level to which we expected was 20%. We are coming off of that. However, the range that we have provided here still implies a significant step-up relative to where we are today. And we believe that we believe that strongly, in terms of every indicator that we have got. Absent the China effect, we would have been rather more bullish on that. So we do have to parse things. As we said, there are a number of moving pieces. When we look at outside of the China effect, generally speaking, we are on track relative to what we set out to do. 2025 will be the pivotal year for all of the operational metrics, some of which you have called out, to translate into margin impact, and we are geared up to do that.

The question of at what point we would take more fundamental actions about the strategy, as you can imagine, we regularly review our strategy, our portfolio strategy. We are somewhat dispassionate about it. There are no emotions here in terms of what the constituent parts of our Group are, but we firmly believe that there is value to the businesses being here together. And we do believe that with the 12-Point Plan, and the benefits of that coming through as expected, we will be well-positioned to start to get back into a better place, and continue to expand margins even further beyond what we have indicated for 2025.

So short answer, at this stage, fundamentally, we are on track to what we have set out to do from a 12-Point Plan standpoint. We do regularly review our strategy, including the components of our portfolio. Right now, we believe that the value of the portfolio is greater together than apart, and in 2025 we expect to deliver more hard improvements, also in margin. As I indicated in response to another question earlier today, in terms of sales, we did not guide to sales. We will come back with detailed guidance, but we do expect to be around 5%, which would be structurally higher than where we were relative to our pre-COVID average.

So top-line, higher. Bottom-line margin expansion, very significant margin expansion from where we are, as we get into 2025, and position the business in a better place for us.

John Rogers: And also not forgetting also of course, cash and cash conversion, and we are forecasting our cash conversion to be 85% for the full year, and expect that to continue in 2025. So I think to Deepak's point, if you looked at our average growth over the last couple of years, it would be north of the 5%, which is a step-up from our pre-COVID growth. If you look at our margin target, we actually set the margin target at +20% pre-China VBP. We held onto it for a while, but obviously the impact of China, you now see coming through. However, absent that China effect, as we talked through on the call today, we would be pretty much there or thereabouts on that, and the cash conversion is significantly stepping up. So I think there is a lot of positives regarding our 12-Point Plan, a lot of good progress being made, and of course 2025 is a critical year, particularly in terms of seeing some of the cost savings start to drop through into our margin.

Graham Doyle: Okay, thank you. Maybe just a follow-up then, John. You have had a hand in this guidance in a way, maybe you did not in the previous guide. Would you have put the volume expansion in, in VBP? Because that seems to me like a risk. That was a pretty firm risk. We see other companies where they have the advantage of winning VBP tenders, and they do not stick them in the guide. So having had a price cut, I am surprised that you put the volume in. When we think about next year, how cautious do you stack this guide up versus the last three years of guidances, just to give people on this call a little bit more comfort that you can really do somewhere between 19% and 20% next year?

John Rogers: Look, I cannot comment on previous sets of guidance because I clearly was not here. I can comment on the guidance that we are giving for this year, and the guidance that we are giving for next year. And we will set that out very, very clearly at our prelims in terms of the bridges. However, I have given you a flavour on the call today. I think we are sensibly balanced in the way that we provide that guidance. So we reflect risks and opportunities against the market, and we use that to give us a feel as to how we set and guide the market. And that is the basis on which we set the guidance, both this year, and going into next year.

Graham Doyle: Okay, thank you, I appreciate that.

John Rogers: I am very comfortable, we have taken a sensibly prudent view.

Graham Doyle: Okay, I appreciate that. Thank you.

John Rogers: I just wanted to come back to just a response to the previous question if I may. I think there was a question asked feedback on the OUS Knees business, and whether or not it would be negative going forwards. I just want to it make clear that when we talk about the China effect, as it were, we expect that effect to continue to flow through into Q4 into the start of next year. So it may well be the case that our Knees business OUS continues to be slightly negative into Q4, and into the start of next year. However, I want to make very clear that outside of China, in our OUS business, we expect to see the continuation of the progress that has already been made through Q1, Q2 and Q3.

Lisa Bedell Clive (Bernstein): Great, thank you. First question, you mentioned you are doing fairly well in ASCs in the US. Could you give us just any estimate of the percentage of US Knees that are being done in the surgery centres today. And also, could you comment on pricing? I think one of the concerns about the shift to ASCs is that, with surgeons sort of more financially involved, that they are more focused on price, and that the ASC prices may end up being sort of a step-down from what is sold into the hospital. So just any commentary on that would be helpful.

And then secondly, one of the things that you have mentioned in the past around the Orthopaedics business, which has contributed to the complexity and perhaps the excess costs, is the number of SKUs and basically the number of product families. Can you give us just a reminder of where you are in terms of number of product families in Hips and Knees and where you should get to, in say, the next three, four years, and how we should think about the phasing of that, and whether that can help us give some comfort that as that complexity reduces, you can get more operating leverage? Thanks.

Deepak Nath: Sure. Thanks, Lisa. So overall, in terms of ASC volume, we are in the low double-digit proportion of our business going into ASCs. So I mean, that is not saying a lot.

Lisa Bedell Clive: Is that low double-digit of just of Knee sales, just to be clear?

Deepak Nath: Yes, yes. Hips are a little bit further behind the Knees in terms of what we see in the ASCs in our business, but low double-digit overall. To put that into perspective, a little over 40% of our Sports business goes through ASCs versus hospitals. So it is a lower number than that. Significantly lower number than that, in terms of these today. We obviously see significant growth in that, as other market participants have commented. So we see growth overall. However, today, when you compare that to where our Sports businesses, it is significantly lower still.

In terms of pricing, as you know, Lisa, there are different models of ASC. There are physician-owned, there are ASCs that are part of IDNs or what have you. So there are different dynamics there. In general, as you well know, the reimbursement level for procedures in the ASC are significantly lower than they are in the hospital. The translation of that into pricing very much depends on what type of ASC you are talking about, if it is physician-owned versus others. I think it is fair to say that there is more price sensitivity in the ASC channel than there is elsewhere. And we are in the throes of kind of adapting to that, and also adapting our business model to best serve that segment.

As far as your second question, we do have a more complex portfolio. We have a relatively large number of products within Hips. We have got four new platforms all around the world. So there is complexity that is driven by number of families of product, and then there is complexity that is driven by the number of SKUs within a family. We are making really good progress on SKU rationalisation within families. I think the last time I gave a number to that was, I think, about a year ago, I will look to my colleagues for that. However, about a year ago, we said something like 40% or 45% reduction in the number of SKUs, largely in our OUS markets, and we built off of that number over the last year. So that programme of SKU rationalisation remains in place.

In terms of the progress in reducing the number of families, ultimately, we want to consolidate into a smaller number of product families. These, our knee products, are JOURNEY and LEGION, and over time, we want to consolidate to one platform. The pace at which you do that, of course, depends on a lot of factors. There is a high level of physician preference here, and we want to migrate physicians in a thoughtful way. And so this is going to take several years before we are able to bring about the rationalisation in terms of families. Again, a balance here in terms of not putting top-line further at risk as we manage through our complexity.

That said, the bigger driver really for us is bringing our capacity in line with demand. We have got excess capacity within our factory network, and that the steps we have taken will bear fruit in 2025. We have talked about a number of factories that we have closed in 2023, so that really is the bigger driver in terms of our cost position. So hopefully, it gives you a bit of colour that you are that you are looking for. And just to give you a number, one in three legacy hip and knee brands have been phased out already. So just to give you another metric where we are going with that.

Lisa Bedell Clive: Super, thanks.

Deepak Nath: Sure.

Julien Dormois (Jefferies): Hey, good morning, Deepak. Good morning, John. Thanks for taking my questions. I have three.

The first one is just making sure that I got you right, in terms of the Knee business going back to market growth in the back half of 2025. Just wondering whether that is a global assumption or whether that is specifically for the US? That would be the first question.

Second question is that the Hip business has been growing at a pretty consistent pace of around 4% in the past seven quarters now. So anything that could derail the story in 2025?

And the last question is just for some sense of an early feedback on the rollout of RENASYS EDGE, and the potential contribution that we could see next year for Wound device.

Deepak Nath: Sure, I will take those in turn.

Just to clarify, what I meant is the US in the first part is get to US growth. Obviously, we are doing better OUS ex-China, as we have detailed that in response to other questions.

Secondly, with Hips, with the launch of Catalystem, in fact, we have got even further catalysts for growth, no pun intended, than we have had before. So we are in the early stages of launch. Further, we are going to be bringing forward additional functionality on CORI related to Hips over the next, call it 12-18 months. So we actually are rather bullish on our prospects in Hips on the back of new launches that is coming. So the launch really of Catalystem really taking off for us to participate in a rapidly growing segment of direct anterior approach is more relevant in the US, than it is OUS. However, obviously, there are changes happening OUS as well, and then CORI functionality should only enhance our value proposition.

In terms of RENASYS EDGE, early feedback has been pretty good. We are in the very early stages of launching. Of course, we announced the CE-marked, I think, now about two quarters ago, and so those are progressing well. We talked about a double-digit growth. We are seeing in negative pressure overall, both in the traditional segment of RENASYS, and also the single-use segment. So we expect that this will continue, and we are optimistic about what lies ahead in 2025 and beyond.

Julien Dormois: Thank you very much.

Deepak Nath: Thanks, Julien.

Great. Thank you so much. I appreciate the attention here. As I indicated, a complex quarter with a number of moving parts here. However, but the China commentary aside, we are making good progress in the fundamental transformation of Smith+Nephew over the last year or so. The 12-Point Plan has enabled us to turn around the performance of most of our Orthopaedics business. So although there is further still to go, I do call out the green shoots that we are seeing in recon and US Recon in particular.

I look forward to coming back in the new year to update you on progress.

[END OF TRANSCRIPT]