Smith + Nephew
Fourth Quarter and Full Year 2024 Results

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Deepak Nath

Chief Executive Officer, Smith+Nephew

Welcome

Good morning and welcome to the Smith+Nephew Q4 and Full-year 2024 Results Presentation. I am Deepak Nath, I am the Chief Executive Officer and joining me is our Chief Financial Officer, John Rogers.

Transformation on track

Looking at our full-year numbers, I am pleased to be able to report that the 12-point plant is delivering financial outcomes. Our operational and commercial actions have combined with the high cadence of innovation to produce consistently higher growth than in the past. Margin expansion is beginning to follow, driven by both operating leverage and productivity improvements, which are becoming more visible as macro headwinds ease.

Better working capital discipline and asset utilisation also mean that our profitability is coming with higher cash generation. Overall for 2024, we delivered 60 bps of margin expansion, 95% cash conversion, which is ahead of our target and higher ROIC at 7.4%. The fourth quarter was a good finish to the year, with 8.3% underlying growth. Volumes were solid across most regions and the company is now set up operationally and commercially to benefit from better demand, as we saw at the end of the quarter. That also meant we realised more of a benefit to our surgical businesses from the two extra trading days that we expected to see during the holiday season.

Importantly, this growth did not depend on improvement in China, which increased as a headwind, just as we indicated with our Q3 trading update. Overall, China cost 280 basis points of Group growth in Q4.

We are now poised to deliver a further step-up in returns in 2025. Our outlook is unchanged. We expect revenue growth of around 5% and significant trading margin expansion to between 19-20%. This will come from continued operating leverage and as the cost savings from the optimisation of our manufacturing network begin to benefit the P&L.

In the early years of the 12-point plan, savings primarily went to offsetting macro headwinds. From here, higher savings and reduced headwinds mean we can deliver meaningful margin expansion. And I want to emphasise that 2025 is not the end point. We expect continued margin accretion in 2026 and in 2027 with many of the components of delivery that are already in place. I will come back to these themes.

A comprehensive programme to drive value

So this next slide will be very familiar to you by now, but that reflects how fully the 12-point plan has been embedded in Smith+Nephew.

The plan is how we have been improving performance, both for individual teams and for the company as a whole. It also represents a more rigorous way of working that will continue beyond the specific initiatives. We are now at a point where the outcomes are becoming more visible. So before we get into the quarter's financials, I would like to set out some of our key achievements of the plan.

12-Point Plan achievements

Firstly, we delivered a truly comprehensive programme. The 12-point plan initiatives have covered all aspects of the business, with KPIs and targets that have been defined for each. We have also moved the organisation to a global business unit model, further embedding the culture of accountability and helping us drive better commercial execution at pace. While there is still more to do, we are increasingly seeing the financial benefits come through across revenue, profitability, return on capital, and cash flow.

On revenue, we have delivered four consecutive years of growth above our historical average. That is backed up both by the operational improvements of the plan and also successive waves of innovation across our portfolio. On profitability, we have delivered 80 basis points of trading margin expansion since 2022, even in the face of some profound external headwinds. And we are set to deliver a step-up in 2025 and in the years beyond.

On returns, our ROIC is rising and should return to above our cost of capital in 2025. While on cash, inventory days are down, restructuring costs are down, and free cash flow was up to more than $0.5 billion dollars in 2024. We will go into each of these in turn, starting with revenue.

12-Point Plan: Consistently higher revenue growth

If I look back to 2019 and before, the company averaged around 3% underlying growth. That was largely steady over time, but we were growing below our markets, and there was a clear opportunity if we could take that to a different level. Our priority was to reposition Smith+Nephew as a consistently higher-growth business with the ability to drive leverage through the P&L.

As I mentioned, 2024 was a fourth straight year of growth above that historical average. We have had to deal with some significant headwinds, such as supply chain challenges, our Recon business taking time to improve, and VBP in our China Recon Joint Repair businesses. Even with all of that, we have delivered a clear acceleration, and we expect that to continue in 2025 with our guidance of around 5% revenue growth.

This step-change has been underpinned by improvements from the 12-point plan. Firstly, we fixed the foundations of product and capital supply. Availability across our portfolio was at or above our target levels in 2024, having been below industry standards at the start of the plan.

We have been able to bring down overdue orders by around 90% since 2022, and we are a better-placed to support our existing customers and pursue new business. We are also showing better commercial execution. Sports Medicine and Wound had already moved to consistent good delivery.

When I get into detail of the quarter, you will see that our US Recon business has also shown progressive improvement as we have gone through 2024, and is on track to be in line with the market by the end of 2025, and that is in line with our target. Also in Orthopaedics, Trauma & Extremities has been transformed into a high-growth platform through execution on key launches across the EVOS plating system and AETOS shoulder.

12-Point Plan: Waves of innovation delivery

Innovation more broadly remains a key component of our growth story. In 2024, more than 60% of revenue growth came from products launched in the last five years. That means for consecutive years, around 3.5% of Group growth have come from innovation. New products alone are taking us to above our historical growth, and we are producing successive waves of technology that keep coming over multiple years.

First, we continue to add further legs of value to existing platforms such as CORI and REGENETEN. For CORI, we have already added ten new features since 2022. The combination of unique functionality and the flexibility to support a range of surgeon preferences have helped us drive adoption, with the installed base now exceeding a thousand units.

We are now building towards a fully enabled hip platform on CORI with 3D navigation as the next element to come through. Expansion to shoulder replacement is a further priority, where the anatomy of the shoulder is particularly well suited to CORI's handheld milling. Pre-op planning with CORIOGRAPH will be the first step to come in 2025.

For REGENETEN, the new tendon repair applications are already contributing, and we believe more than 10% of use is now outside of rotator cuff. We are still looking to bring this technology to more groups of patients, and we have recently received 510K clearance for use in extra articular ligament repair.

Second, another wave of launches is already underway. AETOS shoulder is a product we are very excited about. We have launched a short-stem implant and plan to build out a complete platform. We have a stemless implant that is targeted for 2025, and I have already mentioned our work to bring shoulder replacement to CORI.

We have also added CATALYSTEM in the third quarter of 2024. This is a new shorter stem hip system optimised for direct anterior approach, which represents around half of the US market, growing double-digit. Early utilisation has been running ahead of our plans with excellent customer feedback so far.

You will also see a further wave beginning to appear in 2025. At our Capital Markets Day just over a year ago, we talked about a number of exciting new platforms, including cross-business unit digital capability. We are planning to show our first next-generation digital product at AAOS in San Diego, which will add video-based navigation to the arthroscopic tower and bring the more consistent patient outcomes and more efficient decision-making that we have seen before in Orthopaedics.

We are also developing a new generation of IM nails in Trauma. This is a $1.3 billion category globally, meaning we already have a good presence with INTERTAN and TRIGEN. We are working on both tibial and hip fracture products, and we will come back with more detail as we move towards launches.

Actions taken on business structure and cost base

At the same time, we have significantly reshaped our company, both in our organisational structures and our cost base. In 2023, we began the realignment of our commercial model from franchises and regions to global commercial business units, with verticalized commercial teams for each of Orthopaedics, Sports Medicine, ENT, and Wound. I believe this is a better way of doing business.

It drives greater accountability, faster decision-making and execution, and increased customer focus in every area of our portfolio. We are now positioned to capture that at Smith+Nephew with a single point of leadership for upstream and downstream marketing and sales, better alignment across regions and countries, and dedicated presence with full global P&L responsibility.

We have been operating in this structure for a year now and have continued to enhance accountability by fully allocating attributable costs. John will give examples of what we are already seeing from these changes, and I am confident that the benefits will continue to accumulate.

A second major change is how we have addressed the cost base. We started with an initial programme of $200 million of savings at the beginning of the 12-point plan. In 2024, we built on that by applying a zero-based budgeting approach to identify further opportunities. Total gross cost savings are now expected to be between $325-375 million, backed by a comprehensive and detailed set of plans across 40 different initiatives. The largest chunk is from manufacturing and procurement, but there are savings really right across all parts of our business.

12-Point Plan: Cost efficiency and margin expansion

We have already made substantial cost savings since 2022 of around 410 basis points. Much of it was needed just to offset external headwinds, which were either greater than expected at the start of the plan or, in the case of Sports VBP, not known at all. In particular, we faced above-normal inflation that we were not entirely able to offset through leverage, even with the higher level of revenue growth that we delivered throughout.

However, our intense focus on cost has enabled us to still increase our profitability. In total, we faced almost 700 basis points of headwinds and still delivered 80 basis points of trading margin expansion since 2022. 2025 is a key year of delivery, when we should see the more significant margin step-up that we have been working towards. The elements of how we do that are largely in place, with a further increase in cost saving and inflation naturally offset by growth leverage.

On costs, that includes the closure of four Orthopaedics facilities that will start to benefit the P&L in the second half of this year. We have also reduced our headcount by around 9% overall, with a significant portion coming in late 2024, so again, flowing through to the P&L this year.

Inflation headwinds are also less impactful than in the early years of the plan, with the net of inflation and leverage being broadly neutral in 2024 and expected to be in balance again in 2025. Importantly, that is not the end point. We are well-positioned for further expansion beyond 2025, enabled by better aligned supply and demand, capacity reductions coming through in our manufacturing network, and the timing of lower costs as they pass through inventory and reach our P&L.

12-Point Plan: Step up across ROIC and cash metrics

Another important set of achievements is around our cash generation and returns profile, which is returning to a much healthier position. John will take you through the detail, but overall, we are seeing clear improvement across multiple metrics where we have had long-standing challenges, and there are still more to come in 2025.

I will now move on to the detail of the fourth quarter before passing on to John to cover our full-year financials.

Q4 2024 Revenue – Q4 2024 summary revenue performance

Revenue was $1.6 billion, with 8.3% underlying growth, with 7.8% reported growth after a 50-basis-point headwind from foreign exchange. As I mentioned, these growth rates reflect a strong December and include the benefit of two additional trading days.

The overall acceleration was consistent across our business units, which all grew faster than in the first nine months of the year.

Looking by region, the US was particularly strong, with 11.9% growth in the quarter, while other established markets grew by 8.2%. The 2.3% declining in emerging markets primarily reflected the continued headwinds in China across both Recon and Sports Medicine Joint Repair.

Orthopaedics

For the business units, I will start with Orthopaedics, which grew at 6% in the quarter and 8.1%, excluding China. A priority has been improving performance of US Recon, and it is good to see that growth again improved sequentially in the quarter. Two extra trading days helped the reported numbers, but if you normalise for that by looking at average daily sales, growth still accelerated over Q3.

OUS Recon growth reflects the expected slow quarter in China. Our distribution partners have continued to reduce their holdings of implants following slow end customer demand earlier in the year. Inventory in the channel has come down significantly, but is not yet at normalised levels. So as we indicated in November, the largely paused ordering is likely to continue through the first quarter of 2025. Excluding China, our OUS growth was much healthier at around seven points higher in knees and six points higher in hips.

Other Recon grew 23.9% driven by robotics sales. CORI continues to stand out for its flexibility and broad functionality, and adoption is progressing well. We had a record number of new CORI placements in the quarter, and our global robotics installed base was over a thousand systems by year-end.

As you know, our reporting practise in Recon and robotics has been to recognise all of robotics capital, services, and consumables under other Recon. During 2025, we will change this to be more in line with our Orthopaedics peers. Robotics consumables will move to being recorded under the procedure where they are used. Capital and services revenue will remain as part of other. There is some work to do first, but this change will increase the comparability of both our implants and our other revenue growth.

Trauma & Extremities grew 9.5%, which is a return to the segment is recent stronger growth profile after a slow Q3. The EVOS plating system continues to be the primary growth driver, and there is an increasing contribution from the ramp of the AETOS shoulder, which although still at an early stage, provided around a quarter of the overall growth.

US Recon steadily improving both on underlying growth and adjusted for trading days

US Recon growth continues to improve sequentially; T&E momentum returns

I will take a moment to look more closely at US Recon growth. Acceleration in consecutive quarters is what we said we expected with improved product availability and commercial execution under the 12-point plan.

The sequence of underlying growth rates is affected by trading dates with two more days in Q4 2024 than in the prior year quarter, one more in Q2, and one fewer in Q1. The slide shows the growth in average daily sales as a way of adjusting for these trading day effects. There are two points I would like to highlight.

Firstly, while the curve flattens a little, there is still clear sequential improvement in both US knees and hips. Secondly, these average daily sales growth rates are a more representative measure for how the business exited 2024 compared to the unadjusted growth rates. We are therefore using them as a starting point for thinking about the beginning of 2025, when both Q1 and Q2 will have one fewer trading day than in 2024.

Sports Medicine & ENT

Established markets led by REGENETEN, China VBP remains headwind into 2025

Moving on to Sports Medicine and ENT, which grew at 7.8%, the segment as a whole continues to grow well, and consistent performance over several years means Sports Medicine now has level of sales comparable to our Recon and robotics businesses. Joint Repair grew 5.3% overall, and 15.9% excluding China, with a more than ten-percentage-point headwind from the impact of VBP. We will lap those price reductions in the middle of 2025.

In the rest of the world, we had a particularly strong finish in the US, probably benefiting from the end-of-year co-pay effects. REGENETEN remains a key driver, with strong double-digit growth seven years into our ownership. The broader segment is also starting to see a contribution for our developing foot and ankle business. This is an attractive new category for us, and while it is closer in scale to hip repair than to the larger shoulder or knee categories. It leverages our existing Sports Medicine commercial organisation and is synergistic with some of our specialist trauma products.

Arthroscopic Enabling Technologies grew 8.5%, with growth across the arthroscopic tower and continued strong double-digit growth from WEREWOLF FASTSEAL. However, we anticipate a year of slower growth for AET in 2025.

A China VBP process on mechanical resection blades and coblation wands is expected and likely to take effect in the second half of 2025. We expect a 2025 sales headwind of around $25 million, including both the direct price impact and expected channel adjustments ahead of that implementation. This means that while it will be noticeable in AET, it should be a smaller factor at Group level than the Joint Repair process and is reflected in the guidance that John will set out in a moment.

ENT grew 19.4% with multiple factors behind the stronger quarter. Q4 had a normal prior year comp after a more difficult comp in Q3. We saw some procedure volume catch-up after an unseasonably slow Q3 in our tonsil and adenoid business, and that is on top of the ongoing customer acquisitions that are part of the longer-term growth story.

Growth has been volatile from quarter to quarter through 24, and I would take the full-year growth numbers of 7.3% as more representative of the fundamental business performance.

Advanced Wound Management

Skin substitutes and NPWT drive double-digit business unit growth

I will finish with the Advanced Wound Management segment, which delivered its highest growth quarter of the year at 12.2%. Advanced Wound Care grew 1.9%, consistent with the year as a whole. Foams were again a higher growth category within AWC, which was led by ALLEVYN.

Overall business unit growth came mainly from bioactives and devices. Bioactives growth of 20.3% was driven by skin substitutes, and in particular, the launch of GRAFIX PLUS. The ramp is following quite a common pattern in skin substitutes, with an initial period of rapid growth that then quickly normalises.

We also saw strong growth in SANTYL late in the quarter, whereas we have said before we see volatile stocking patterns. With all of that in mind, we expect bioactives to return to low-single-digit growth in 2025.

I know there is a lot of interest in skin substitute LCDs, where implementation has been delayed and is now scheduled for April. Our expectation is still that the overall effect on our business will be broadly neutral, with the benefit of good coverage for our portfolio likely to be offset by a smaller overall market size. We are not seeing the evidence of changes in the market in anticipation.

Advanced Wound Devices growth of 20.6% was mainly from our negative pressure Wound therapy portfolio. We have talked more about that, what we are doing with RENASYS. PICO acceleration is also a big part of our plans, with the largest growth opportunities in surgical site complications and in chronic Wounds. This remains a high-growth category, and we expect PICO momentum to continue into 2025.

So with that, I will hand over to John to cover the full-year financials. John.

FY 2024 Financials

John Rogers

Chief Financial Officer, Smith+Nephew

FY revenue growth by Business Unit

Thank you, Deepak.

Coming to the full-year 2024 financials. Full-year revenue was $5.8 billion, up 5.3% versus 2023 on an underlying basis, and up 4.7% on a reported basis. Note that excluding the headwinds from China, growth would have been +6.7% on an underlying basis. Performance was broad-based with all three reporting segments contributing significantly to the overall Group. As you can see in the chart, Orthopaedics grew 4.6%, Sports Medicine and ENT grew 6.2%, although again, excluding China, growth would have been 10%. And AWM grew 5.1%.

We beat our revised Q3 expectations for the full year as a result of a very strong December, where we had somewhat discounted the benefit of the two extra trading days, which turned out to be good across our surgical businesses. We set out the challenges in the Chinese market for both our Orthopaedics and Sports businesses in our Q3 trading statement. And the Q4 China performance was in line with these expectations.

Overall, a good set of growth figures and particularly good to see that more than 60% of our growth is drawn from products launched in the last five years, as covered by Deepak. This gives us a degree of confidence coming into 2025.

FY trading income statement

Looking at the trading P&L, gross profit was $4.09 billion with a gross margin of 70.3%, which is 40 basis points below 2023. The gross margin pressure came in the second half of the year as we began to see the price impact of Joint Repair VBP in China. Trading profit was $1.05 billion, up 8.2% year-on-year. Half-one trading margin expansion was 140 basis points and the half-two margin went back 20 basis points due to the China headwinds, resulting in 60 basis points of trading margin expansion for the year to 18.1%, which is slightly above the guidance we gave with our Q3 trading update.

If you unpack the 60 basis points of margin expansion, we saw a drag of 40 basis points on gross margin offset by 100 basis points of positive leverage across our operating expenses as we benefited from operational savings. 40 basis points of that came from slightly lower R&D costs. At the half-year, if you remember, we were down 7.5% year-on-year on our R&D spend. We expected to catch up some of this shortfall in the second half, but ended broadly flat in half-two due to some efficiency savings being delivered. We remain committed to our R&D spend and continue to look for ways we can drive efficiencies in this area. Our new product pipeline for 2025 is very exciting and a testament to the hard work by our R&D colleagues.

FY operating profit and EPSA

Looking further down the P&L, adjusted earnings per share grew by 1.7% to 84.3%. That is below the growth in trading profit due to the higher tax and interest expense that we set out in our technical guidance at the start of the year. Our tax rate was 19.1%, in line with the guidance of 19-20%.

IFRS earnings per share of 47.2% grew significantly faster, primarily due to the lower restructuring charges than in 2023, along with lower costs from the now-completed EU MDR programme and the provision release relating to metal-on-metal.

On restructuring charges for the full year were $123 million, down from the $220 million in 2023. 12-point planned spend was $66 million, bringing spend to date to $253 million and leaving around $22 million of spend to come through in 2025, to total the $275 million we guided to.

We also took a reduction in our headcount in November in order to accelerate operational savings coming into 2025, and we also closed a manufacturing facility that was not part of our original 12-point plan. The total costs of all of these programmes over 2023, 2024 and 2025 is $324 million, and they deliver annualised benefits of $239 million, so about a one-and-a-half year payback.

Overall, we expect restructuring costs in 2025 to be around $45 million, including the remaining $22 million on the 12-point plan and around a third of the spend in 2024.

The full-year dividend is proposed to be unchanged at 37.5 cents per share.

FY 2024 trading margin bridge

60 basis points expansion over 2023

Slide 21 shows a more detailed trading margin bridge. We absorbed headwinds of 130 basis points from input cost inflation and merit increases, 10 basis points from FX and 90 basis points from China VBP pricing. These were more than offset by 130 basis points of revenue leverage from price and volume and 160 basis points of productivity improvements, delivering 60 basis points of margin improvement for the year.

To help you reconcile what we said at the Q3 trading statement to our outturn, the margin headwind from VBP price was around 20 basis points higher than originally expected, with a further negative effect on volume leverage of about 10-20 basis points captured here in the revenue leverage bar, and in line with the circa 40 basis points we guided to at Q3. However, the better finish to the year, particularly in our higher-margin US business, has dropped through strongly to trading profit. The resulting leverage combined with a little bit more upside on forex has offset the predicted China effect, bringing us back to our original guidance of +80% for the full year.

The overall picture for the full year is that revenue leverage has broadly offset input cost inflation, which means that VBP aside, cost savings have been able to drop through to trading profit.

2023-24 Efficiency savings across Group

Drilling down into the details of these efficiency savings, we are on track to deliver in line with what I set out at the interims. We have already made broad-based savings across all areas of the Group, including manufacturing, procurement and operating expenses.

We finished 2024 at a gross saving run-rate of $210 million and with significantly more to come in 2025 and beyond. Our ZBB implementation is on track across all BUs and central functions. Across our five work streams, 51 initiatives were mobilised, of which nearly half are now complete.

Expected 2025 savings are slightly ahead of our initial diagnostics outlook, driven by amplifying and accelerating the headcount savings I referred to earlier in Q4 of 2024. We are currently embedding our ZBB approach into our standard processes and the 2026 budgeting process design.

We have been working to reduce our headcount for some time, and we have made good progress. We finished the year with a total headcount around 9% lower than at the end of 2022 and with a bigger reduction in 2024 than in 2023. I referred already to the action taken in November 2024, with headcount reducing from Q4 of 2024 into Q1 and Q2 of 2025. The associated cost savings will mainly flow through to the P&L in Q2 and the second half, in line with the flow through of savings from our manufacturing network optimisation programme supporting our margin expansion, particularly in the second half of the year.

2024 progress sets up for mid-term margin delivery

Our 2025 trading margin guidance is for 19-20%. Overall for the year, we are forecasting just over 100 basis points of headwind from China VBP, as I said, slightly higher in Q1 and easing off a little in Q2. This is more than I indicated at the interims because of the volume impact I covered at our Q3 trading statement and the additional headwinds from China AET VBP in half-two.

We expect input cost inflation and merit to be more than offset by revenue leverage, supported by the significant cost savings driving margin expansion. As mentioned earlier, these operating savings are weighted towards the second half. The combination of this with the timing of the China VBP effects mean we expect nominal margin expansion in Q1 with a significant step-up in the second half delivering a margin of 19-20% for the full year.

Going into 2026, we expect continued margin expansion as we analyse cost savings and continue to drive greater efficiencies in our business.

Trading margin by business unit

Coming on now to our trading margin by business unit. As Deepak covered earlier, we have transitioned the organisation to a global business unit model, further embedding the culture of accountability and helping us drive better commercial execution at pace.

At the interims, we committed to providing additional disclosure on the performance of our business units and to move to fully allocating attributable central costs. Slide 24 shows the margin by business units under the new methodology. The effect of the change has been similar across the business with each segment is 2023 trading margin between 620-670 basis points lower than under the previous approach.

All three business units delivered trading margin expansion in the year, with a 20 basis point increase for Orthopaedics, 120 basis points for Sports Medicine and ENT, and 50 basis points for Advanced Wound Management. In each case, we would also have seen margin expansion under the previous allocation approach.

Broadly speaking, expansion came from OPEX savings and leverage across all three business units. There was also some variation from mix effects, notably in Orthopaedics, where the higher-margin US business grew below the international business, particularly in the first half of the year.

For 2025, you should expect the bulk of margin expansion to come from Orthopaedics at over 200 basis points, with accretion of over 50 basis points coming from both Sports Medicine and AWM. With this fuller allocation in place, only $52 million has remained as truly central costs, and we anticipate these will be broadly flat year-on-year in 2025.

The purpose of the change was to create transparency and accountability, and there are already positive behavioural changes as a result. We have seen greater scrutiny of spending plans, lower demand for new projects, and greater discipline in constructing robust business plans for new IT investment, as an example.

Inventory by business unit

DSI below prior year in all BUs; continued improvement remains a focus for 2025

Accountability at the BU level also arises at the balance sheet as well as the P&L, in particular for our inventory balances, which as you know have been a priority under the 12-point plan.

Slide 25 shows the development of DSI through the year, both for the group and for each of the business units. 507 overall inventory days at the end of 2024 was a 23-day improvement. Some initial build in the year was necessary to support launches including AETOS and RENASYS

Edge. Then as product shipments and set deployments ramped up, we saw DSI come down across all three business units in the second half.

There was still an overall increase in inventory for launch products for the full year, and this means that as well as Group DSI improving, our inventory mix has also improved, with units of the slowest turning quartile of SKUs down by 17% during the year. Longer-term improvement will be down to improved forecasting and better alignment of production plans with commercial needs at the SKU level, enabled by the improved SIOP process under the 12-point plan.

There is still more work to do, including aligning our SIOP process with our financial forecasting in a truly integrated business plan. Inventory reduction remains a focus, and we expect further progress in 2025.

ROIC by Business Unit

The business is increasingly focused on driving improvement in capital returns. We have made solid progress in 2024, delivering a 150 basis point improvement in ROIC to 7.4% of the Group level, and we expect to see return to a level above our cost of capital in 2025.

For the last two years, most of the ROIC improvement is being driven by operating margin expansion and particularly by restructuring charges coming down in Orthopaedics. For the longer term, we are also focused on driving better asset utilisation and reduced inventory, as I have already covered.

We expect a doubling of returns in our Orthopaedics business in 2025, with further progress in 2026 and beyond, and more measured progress in both our Sports and Wound business units in 2025. This work, of course, is made more precise by our recent allocation of central costs to the business units and more granular allocation of capital and a greater focus on capital efficiency measures such as set turns. We also remain focused on more disciplined capital allocation across our business units and greater focus on working capital, with significant improvements delivered in 2024, which is a useful segue to our cash flows for 2024.

FY cash flow and cash conversion

Improved trading and free cash flow on lower CAPEX, working capital, restructuring

Moving on to cash flow, trading cash flow was $999 million for the year. 95% conversion was ahead of our target and well ahead of the 65% in 2023. The improvement came primarily from lower working capital costs, particularly from inventory and payables.

Capital expenditure was also lower versus an elevated level of spend in 2023. Working capital remains a focus for 2025. Free cash flow also improved to $551 million, helped by a $95 million improvement in the restructuring, acquisition, legal and other line, reflecting the lower P&L restructuring costs of $123 million in the year that I mentioned earlier.

We expect further improvement in free cash flow in 2025 to over $62 million, driven by further improving trading profit and restructuring costs will be less than half of 2024 at around $45 million. Free cash flow will be an increasing focus in the business, as evidenced by a shift away from trading cash conversion to a free cash flow measure in the performance criteria used to incentivise our most senior people.

Overall, our cash generation and returns profile is returning to a much healthier position. As I have set out, we are already seeing clear improvements across multiple metrics where we have had longstanding challenges and there is more still to come.

Strong balance sheet

As a result of our strong cash flow, net debt came down during the year to $2.7 billion, which is a decrease of $67 million. We expect the trends behind our improved free cash flow to continue in 2025, including good growth and margin expansion, lower working capital costs and significantly lower restructuring costs.

Capital allocation will become a more active consideration as a result. As a reminder, we are focused first on investing for organic growth, followed by acquisitions, paying a dividend and lastly, returning any excess capital to shareholders. We finished 2024 with a leverage ratio of 1.9x adjusted EBITDA, which is within our target of around 2x. For the use of excess cash, we will continue to look at tucking in M&A in line with our policy and growth strategy. And I would note that at the current valuation of our equity, the financial return on share buybacks is a very relevant hurdle for M&A.

Outlook

I will finish with our outlook for 2025.

For 2025, we expect underlying growth of around 5%. That includes continued progress in US Recon on an ADS basis, noting the swing from two extra days in Q4 to one fewer day in Q1 and Q2 of 2025. We also expect continued good growth in all of Sports Medicine ex-China, ENT and AWM, including bioactives returning to lower single-digit growth as the benefit of GRAFIX PLUS launch fades.

China will still be a significant growth headwind, as Deepak highlighted. Our guidance includes a total headwind of around 150 basis points for the full year, but still results in solid underlying growth overall. As previously indicated, we also expect a significant step-up in profitability in 2025 with a trading margin between 19-20%. That step-up will come from operating leverage, further operating cost improvements and the benefits of network optimisation programme beginning to reach the P&L, particularly in the second half. And these effects will more than offset the headwinds from China inflation.

There are also significant phasing considerations in 2025. On growth, we expect that some of the strong finish to 2024, particularly in US Sports Medicine, was supported by year-end patient co-pay effects that will normalise in Q1. Also, China Recon will remain slow in the first quarter and the growth headwinds from Joint Repair VBP will roll off in the middle of the year. In addition, we will have one fewer trading day compared to 2024 in each of Q1 and Q2 and then one extra day in Q4.

Putting all of that together, we expect growth to be around 1-2% in Q1 and then accelerate for Q2 and the second half. We also expect the trading margin to be stronger in the second half than in the first. As I have already commented, we expect greater margin seasonality than in 2024, with only nominal year-on-year expansion in the first half. And so, the four-year margin expansion will be mainly driven by half-two. As we did last year, we will give more specific margin phase in detail with our Q1 trading update.

And now, I will hand back to Deepak.

Transformation on Track

Deepak Nath

Chief Executive Officer, Smith+Nephew

Transformation on track

Thank you, John.

I am encouraged by how we are positioned coming out of 2024. It is good to deliver on both growth and margin, but what is most encouraging is to see the 12-point plan benefits more visibly coming to fruition.

We started out with a comprehensive programme of actions which first showed improvement in operational KPIs and is now delivering an inflexion across the full range of financial outcomes. We know that there is still much more to do, but we are well-positioned for a key year of delivery in 2025.

On revenue, we are continuing to improve in US Recon. We are delivering successive waves of innovation, and we are demonstrating our ability to turn that into a level of growth that can drive natural leverage. We have also taken broad action on our cost base with the result that there is a step-up in savings across manufacturing and operating expenses poised to flow through to our P&L in 2025. I look forward to updating you through the year as we move towards our goals, but I would like to finish today on a personal note.

As you may know, Phil Cowdy has recently announced that he will retire later this year. Phil came to Smith+Nephew 17 years ago. And has been a pillar of the company across a number of roles. Most recently, he served as a Chief Corporate Development and Corporate Affairs Officer, and for me, he has been an invaluable source of support and advice in my time as CEO. I am sure you will join me in wishing him all the best for retirement. Phil, thank you very much for all your tremendous contributions to the company over 17 years.

And now we can move on to questions.

Q&A

Jack Reynolds-Clark (RBC): Hi there. Thanks for the questions. Jack Reynolds-Clark from RPC. I have three, please.

First on China, what gives you the confidence that Orthopaedics is going to recover towards the end of Q1? How much visibility do you have into or on market and market demand? Also on China, within Sports, are you seeing volumes tick up as you had previously expected?

Second question was just on US hips and knees. Could you just remind us at this point, what gives you confidence that the geography will now grow in line with the market come the end of 2025? Just give a bit of confidence there.

Then the final question is on R&D. Obviously, you said that R&D would tick up in H2, and I think there has been a bit of kind of nervousness that R&D is being used perhaps to manage margins. Could you just give us a bit of confidence again that that is not the case, or it will not be the case in 2025?

Deepak Nath: Great. Thanks for the questions, Jack. First, with China, we had indicated in Q3 that we had seen a softening in end-user demand. In China, just to remind you, there is a tender business and then there is an off-tender business. It is the same price, but you have got committed volumes in the tender business and free float in terms of volumes in the off-tender business. What we had seen is softening of demand in that off-tender business.

Ordering had stopped because the inventories are built up in the channel. And as I indicated, we are seeing the inventories come down, but we expect in Q1 that some of that to continue and to recalibrate. And so, as we commented, Q4 of 2024 played out as we had indicated that it would, and nothing that we have seen so far indicates that Q1 will be any different.

Q1 should be the low watermark in terms of inventories coming down to equilibrate. From there on out, it will be our ability to service the market. And I will remind you that we have got committed volumes for tenders at a price that we know. That is how we expect the Recon part to play out.

With Sports, in the first half of the year, it will be essentially the Sports VBP on Joint Repair playing through. And then in the second half of the year, we will have lapped that. What will come concomitantly is VBP for AET that we expect to kick into gear in the second half of the year. As with the Joint Repair and as with Orthopaedics, there will be adjustments in the channel as we lead up to that. Putting all of these effects together, we feel confident in a) having pegged how that is going to play out, having been shaped by the experiences over the last few years, and our guidance actually contemplates the combination of these two effects. That is China.

Do you have anything to add, John?

John Rogers: I was just going to say, just in terms of the actual numbers that we have got assumed in our budget for 2025 for China, the first half on Orthopaedics, we are predicting it is going to be down 60-75%. We are fully baking in the experience that we saw through at the end of 2024. And we do expect to see some of that recovery come through in the second half. I think we are being very sensible about the numbers we are using.

On Sports Medicine, again, we are reflecting the Q3, Q4 performance of 2024 coming through into 2025. The first half will be down almost 50% against our budget.

I think we have been sensible using the history that we have seen in the second half of 2024 to build that into our forecast for 2025. And that is fully baked in into our guidance for the full year.

Deepak Nath: Your second question about US hips and knees, the confidence comes from us having executed multiple elements of our transformation programme over the last couple of years. The first is improving supply, which is a substrate to this whole thing.

As I have commented on previous calls, US-specific SKUs were the last to recover. We did not plan it that way, but this is how things unfolded. Hips recovered before knees did from a supply standpoint. However, as we commented in 2024, we are now back to our target levels. That is the first part.

Secondly, concomitantly, we have been improving our commercial execution. There are multiple facets to that. It is leadership. It is our organisation, our selling organisation. We have made some improvements in how we are set up, how we have performance managed, and also the process that we use for performance management in Orthopaedics. We are just fine on the other parts, but we had improvements to make in those areas. All of those we have been driving at.

The upshot of it is, as I look at customer churn through 2023 and 2024, the story was we lost more customers than we gained. Now, as we exit 2024, that balance is now in favour of us winning more customers than we have lost. That gives us a more stable account base as we have reduced churn, and on the back of a portfolio, we still have work to do to add to that portfolio, but we have got a portfolio and a strategy for commercialising that portfolio that I feel good about. CATALYSTEM will be a great growth driver because we are now able to fully participate in the direct anterior approach, which is the high-growth part of HIPS. We have got CORI now that has got tremendous functionality, truly setting the standard in terms of robotics for knees, and there is more to come in hips.

I look at the growth drivers from a product standpoint, the improvements we have made to commercial execution, and supply as a substrate, all of those translate into confidence that I feel that we are going to continue this improvement trajectory that you clearly see that we have laid out. That is the US question.

John Rogers: And maybe just to, again, just to build on the numbers there. So, as Deepak's chart showed at the end of the year, we were exiting at circa 2% ADS growth. We will deliver sort of slightly ahead of that in Q1, not much though, but then we will see that grow to 3-4% by the end of the year and therefore in line with the market, which is consistently what we said now for the last 12 months or so that we expect to get to market growth by the end of 2025.

Deepak Nath: Regarding R&D, as I have commented multiple times, including today, innovation is a key part of our growth story. We have called out that 60% of our growth revenue came from new products. That is on top of nearly 50% in 2023, where revenue growth came from new products. This is an important part of what we do. If I wanted to make our margin number by cutting R&D, I would have done that two years ago.

That is not a level we are looking at. However, when you look at year-on-year comparisons, of course, R&D looks down. The primary part of that is one-time effects and those were related to some productivity measures that we took and actually EU MDR that was obviously a one-time thing that rolled off into 2024.

We have not cut any programmes. In fact, I have added programmes despite the margin pressure that we feel. All of the shoulder programmes on CORI, that was added on top of when we started the 12-point plan programme. Rounding out the portfolio of shoulder, well, we had aspirations for that. What we have actually done is accelerated our implant programme. And on the knee side, we have actually accelerated some programmes within that as we look to make our portfolio more competitive.

In terms of the substance of what we are looking to do in R&D, which is the programmes, I feel very good about the level of funding that we have got and really the level of innovation that has gone into those programmes. And you can see the track record. You can measure that in terms of revenue growth contribution. You can look at it in terms of number of products launched. You can look at it in terms of the number of firsts in terms of category creating products we have brought to bear. All of those tell the story of innovation.

We are a medtech business. Innovation is key to us, and we do punch above our weight class. So, that is the reassurance that I can provide around R&D.

And then the 4% reduction year-on-year in R&D is just a natural consequence of where the spend occurs within our R&D programmes. It is not coming from cutting programmes, but as we go through different milestones, the spend level tends to vary. We are not backing into the R&D number based on a margin target, but rather driven by what we think we need in terms of programmes to be successful.

John Rogers: And also, when you look at the margin accretion for the year, the 60 basis points, we get 60 basis points of improvement coming through from our improved SG&A spend. One would argue that the key leverage here is the cost savings that we have delivered coming through providing that margin accretion. And we will see more of that, of course, in 2025.

It is not R&D, it is the SG&A reduction that is driving our margin expansion.

Jack Reynolds-Clark: Thanks a lot.

Estelle Pang (Bernstein): Hi, this is Estelle Pang from Bernstein. I am asking the question on behalf of Lisa. The first one is, can you discuss your effort to reduce SKUs in hips and knees? Is a significant reduction required to get Orthopaedics to structurally higher mid-to-high teens EBIT margin? Or perhaps another way of saying it, how much is your large number of platforms in both hips and knees contributing to the low margin profile of the Recon business?

And the second question related to margin. Most of your margin improvement is clearly coming from Orthopaedics. Can you give us a bridge in terms of rough proportion of uplift in this division that will be coming from a reduction in COGS, operating leverage or any particular areas of cost savings?

And the last one, could you discuss the competitive dynamics in the Chinese market, specifically your Chinese Recon business? After the large decline in Q3 and Q4, have you lost shares in the market, especially to local players? And have you seen like the buy local campaign, the trend is notably like accelerated, or it is just an aberration? Thank you.

Deepak Nath: Thanks for the questions. I will take the first and the third one. I will have John address the second part.

In terms of SKU reduction, that is an element of our plan. And actually, it was one of the sub-items of the 12-point plan, where we have actually over the last few years, significantly reduced the amount of SKUs. And those are primarily in Asia and certain emerging markets. We have seen the benefit of those.

In terms of platforms, that is a much trickier bit to execute because you have got a customer account base that you have got to protect. And it is not always easy to transition from one platform to the other. The good news here is we have already made good progress. It is important over the longer term, but in order to achieve what we need to get to in 2025 and 2026 and 2027, it is not the biggest lever that will get us there.

Does it afford challenges for us from a scale efficiency standpoint? Yes, it does. However, in the end, we have got other levers we are pulling in order to deliver the margin expansion. So, that is the short answer to the SKU story. Good progress, has delivered what we expected to deliver. Going forward, it is a part of the plan, but it is not the biggest part of the plan in terms of margin expansion.

On the third part, China, you asked about Recon, but there is a little bit also in Sports. We have lost share. Part of what we see the government doing is, in addition to addressing the cost base or healthcare spend, where VBP is a vehicle for controlling that, there is clearly a push to support local manufacturers. And so, we should expect that some of them will step in and start to play a bigger role in the market. And we have seen that come through.

And largely, our Recon business or some of the volume impact that we have talked about in the past really comes from local players being more competitive in that free float segment that I talked about earlier in Recon. It is true that that is a bigger factor and we are losing share. In Sports, it is maybe the effect is not quite as pronounced, but it is the same dynamic nonetheless. There is a price impact, and we expect local players to come in and step in to that.

Had we under called that a bit in Sports? Yes, we had. However, we have been shaped by the experience, particularly as we discussed in Q3. That is the third question.

John, you want to take the second question on Ortho margins?

John Rogers: Yes. On margin expansion by business unit, just to contextualise, obviously, we outturned 2024 at 11.5% margin for our Orthopaedics business, 24% for Sports and 23.7% for Wound. Now, we will expect both Wound and Sports to accrete by 50 basis points plus. We will expect to see margin expansion come through there. However, clearly, starting at a fairly high level, that will be more muted. However, in our Orthopaedics business, we will expect at least a step-up of 200 bps from the 11.5%. At least 13.5%, hopefully getting towards 14%.

The key drivers behind that are twofold. The first of which is, obviously, operational leverage coming through, through growing our top-line and recovery in our US Orthopaedics business, as we have already talked about. And the second one, which of course is a big chunk of that will also come from savings, particularly the closure of the four manufacturing units that supported that business and the benefits that those savings coming through in the second half of the year. Thus, two big levers on Orthopaedics to deliver that 200 margin, 200 bps of margin expansion, operational leverage and manufacturing cost savings.

Robert Davies (Morgan Stanley): Morning, Robert Davies from Morgan Stanley. Two questions. One was just on the headcount reductions, obviously, being quite a notable sort of step down. I noticed your one-off costs were not quite so big in 2025 as 2024. Just maybe give us a bit of context in where you are in the headcount reduction programme. What is left? Where are those people actually coming out of?

And then the second one was just around potential tariff risks across different parts of your business. Perhaps you could give us a little colour on that. Thank you.

Deepak Nath: On headcount, so most of the headcount reduction comes from the factory closures, which is part of the network optimisation efforts. That is almost all in Orthopaedics, where we had more capacity than we needed. However, as part of the broader cost savings programmes, we have actually gone off to efficiencies right across the Group. Thus, significant in SG&A. Initially, it was as we transitioned into the business unit model that was back in 2023, but there is actually significant SG&A related headcount savings as well.

And then in 2024, you noted the step-up in reduction if you will. We had to make some difficult decisions there. We have actually pulled forward some of the things we had planned for in 2025 into 2024 as we grappled with the additional headwinds. Relative to where we started the 12-point plan, inflation has been higher for longer and VBP impact in Sports, which we did not have at the time we announced the programme, and not only in Joint Repair now coming into AET, has meant we have had to go deeper than we originally set out to do in the 12-point plan. The zero-based budgeting approach was one of the vehicles we used to get there. However, we have largely done the big bulk of what we set out to do.

2025 is the year when the benefits of those actions will flow through into the P&L. That is the headcount, both in terms of where it is and how we are thinking about this phasing or sequence of it.

In terms of tariffs, obviously, the headline is it is a dynamic picture. It is hard to know how things will actually settle out. When you look at what has been announced so far, this is primarily on China, that is within the realm of what we had contemplated and within the realm of what we expect. And I will also remind you that tariffs in China is not a new thing. We have navigated that also in the past administration.

The topic of reciprocal tariffs and the impact of that at this point, it is hard to know how that is actually going to play out. The headline for us is we have got a team looking at it. In terms of the U.S., the largest proportion of our US businesses serve through manufacturing plants in the US. We are reasonably well covered there. However, where we expect the impact, to directly answer your question, would be primarily in our Wound business, where we have got a significant presence in China in terms of manufacturing. However, having said that, all of our scenario analysis we have done leads us to believe within the realm of the impact will be the realm of what we expect. However, the headline, again, is this dynamic and hard to know how it is going to play out exactly.

John Rogers: Just to build for a second on Deepak's comments on the headcount, we are not planning any major headcount reduction plans in 2025 per se. That said, this whole philosophy of ZBB that we have embedded in 2024, we want to make sure it becomes in our DNA and our way of working.

And so, as we set our budgets for the 2026 year, we are always, always looking for opportunity to make ourselves more efficient. And there are still opportunities, I believe, in the business where we can drive efficiency through. However, it will be done through incremental, continuous improvement, as opposed to maybe step-change, one-off programmes that we have done in 2024.

Seb Jantet (Liberum): Hi, Seb Jantet with Panmure Liberum. Two questions, if I can. Just first of all, just want to talk about pricing a little bit. And just want to get a sense of what you have baked into your forecast for pricing in some of the major markets, obviously, VBP aside.

And then secondly, in terms of guidance, you have given yourself quite a big window to drive through for this year. So, I am wondering, what are the levers that might leave you at the bottom end or top end of that? Is it a revenue outperformance story? Is that cautious guidance on cost savings, just trying to get a handle on where we are on that?

Deepak Nath: In terms of pricing, historically, we are a 1-2% price erosion type of company. And it is very fairly typical in the medtech sector. Over the last couple of years, we have been doing better than that. We have been flat, maybe a little over a 1% up. And that is largely because we have been able to pass through our inflation-related cost increases to our customers. And as you know, in medtech, historically, it is not something that you can easily do.

What I have commented in the past, is we do not expect that to continue on into the future. Our long-term plan basically takes into account going back to normal levels of price erosion, which is around 1-2%.

Now, we are not going to get there all in one year. We already saw that 2024 was worse. I should use my adjective correctly. It was closer to normal than 2023 was. We expect 2025 to be even closer to normal than that, but not quite at normal. That is the way to think about that process. There are dynamics in terms of within Orthopaedics, how the mix shift from hospital into ASCs and so forth and how that plays out. However, generally speaking, our long-term plan is based on going back to normal price levels.

Before I get to the second question, do you want to chime in, John?

John Rogers: Yes, just to give you a little bit of colour on that. 2024, pricing was roughly the Group level was up around 1.5% or so, and if you stripped out China, roughly 2%. As Deepak says, elevated levels.

For 2025, for the Group level, we expect it to be roughly flat, and ex-China would be roughly up 50 bps. As Deepak says, we are expecting that benefit from price to come off significantly in 2025. That is fully baked in to our forecast and our guidance for the year.

Deepak Nath: Regarding margin, I would not anchor to either the low-end or the high-end of that range. The intent here actually is not necessarily to be more conservative forecasts. Coming off of a margin target that we have in 2025 is not an easily done thing. It was a very painful thing for me personally to have to come off of that. Having said that, what you also do not want to do is put forward something and then have to revise it again.

What we are dealing with is significant uncertainty around China. Bottom line, the reason for this range is China. We have commented on how Sports Joint Repair played out a little differently than we had set out. The range we have provided takes that into account, but it also takes into account AET, which is the other part of Sports that has come through.

That range gives us the ability to deliver within that. However, like I said, I would not anchor to the low-end or the high-end of that range. And as we progress through the year, certainly at Q1, we will be able to tighten up that range for you, recognising what John said in his remarks, which is this will be another year, where for a variety of reasons, it is going to be a story of Q2 or H2 margin step-up. And that has been generally how the last two years have played out. H1 looks kind of ho-hum year-on-year, and the benefits come through in H2. That has been the story of 2023. It was the story in 2024. The factors have been different in each of those years, but that will be how 2025 plays out as well.

John Rogers: If you think about the three key levers for margin in 2025 being operational leverage, China effects, and cost savings, obviously, there is a scenario, if we do not recover US Ortho to the extent that we have said we will, that will mean we are at the bottom end of our range. If we do recover or do better, that will be we are at the top end of our range.

On China, we have baked in 100 bps of margin dilution, 110 bps of margin dilution in our bridge. That reflects both the sales reductions that I talked about earlier across both Orthopaedics and Sports. I think we have baked that in, but there is always uncertainty around that, of course. It is very difficult to forecast, but we have baked that in.

And then the cost savings, I feel pretty confident on the cost savings to the degree that we have got sort of 51 programmes that drive those cost savings, half of which are already embedded and complete, the other half of which are close to complete. We have got pretty good visibility of the cost savings.

I think in order of risk, you have got the operational leverage piece, then China and then cost savings where we have got pretty good visibility. However, the mix of those will determine the bottom and the top end of the range.

Deepak Nath: That is great. Thanks, John.

David Adlington (JP Morgan): David Adlington, JP Morgan. Just in terms of on the inventory side, maybe for John, any targets you are willing to share in terms of how much you might reduce inventory this year? And then related to that, how we should be thinking about free cash flow evolving from last year because last year was obviously very good?

And then just on margins, obviously cost savings coming through, getting some top-line leverage. How are you thinking about margins beyond 2025, and how much you might need to reinvest versus allowing it to drop through?

John Rogers: Look, on inventory, we are not going to give specific targets. I think we said we have made good progress this year. You have seen it both at the Group level and more importantly, I think at every single business unit level, we have made good progress on DSI. We also make the point that the quality of our inventory is better. We have had a build-up of inventory, obviously, for new product launches, but that has meant that the stuff that does not turn very quickly. We have actually reduced the number of those units by about 17%. We are both improving the day sales inventory and also the quality of our inventory.

I think in terms of target for 2025, we are not going to be specific on that, but you have seen the direction of travel, and we want to try and maintain that direction of travel through 2025.

How does that all impact on our free cash flow? Well, we said free cash flow will be north of $600 million for the year versus the $551 million in 2024. I would like to beat that. There is a little bit of a step-up in the CAPEX as a consequence of our new facility that we are installing in Melton in the Northeast. However, I think we should be aiming to try and be driving north of $600 million and maybe getting to $650 million in terms of free cash flow for the year. That should see our leverage reduced from the 1.9x we exited this year down to 1.6x at the end of 2025. That is the direction of travel that we are going in.

And in terms of margin beyond 2025, look, we are not going to sit here and give guidance for 2026 and 2027, but we said frequently that you saw the cost savings come through for this year at $210 million over the last two years. We should be trying to get that to close to north of $300 million coming through in 2025. We said $325-375 million overall. Some of that will come through in 2026 and 2027. Some will be new savings, some will be annualisation of 2025 savings, but we do expect our margin to accrete through 2026 and 2027.

Kane Slutzkin (Deutsche Bank): Morning. Kane Slutzkin, Deutsche. Just on robotics, we have not spoken too much about CORI.

I am just wondering, you have obviously got MAKO and ROSA in the large footprint space, but just in terms of any colour you can share on the competitive landscape in the small footprint space where CORI plays, whether it be J&J or THINKMINI or the other ones, just any sort of commentary there. It sounds like you are gaining some decent momentum.

Deepak Nath: Yes. First of all, very pleased with the traction we are getting with CORI. We are not dissecting the market into small footprint, large footprint. It is the robotics market that enables surges to implant knees or hips or shoulder. And what I am pleased about is not only the gross number, but where we are actually placing CORI. We are placing them in academic medical institutions where historically we have been under-indexed. We are placing them in the ASC, the slightly higher proportion than our overall share, speaking to the broad value proposition that CORI has.'

What I am also pleased with is the level of utilisation. We could be running a place-first type of strategy. That is not what we are doing. We are actually placing them where there is demand and where we place them, the utilisation is at a nice level. So very pleased with the traction that we are getting.

And as we indicated since 2022, we have invested in fully featuring CORI. We started out, for example, with a milling-based approach. We got feedback from the market, the surgeon preferences ranged from cutting and milling. So we brought forward cutting functionality onto CORI, which we had originally not started off with.

And actually taking a step back, CORI has some features that only it has. CORI is the only platform that is able to do revisions because we offer both image and image-free solutions. We are the only platform that is able to do soft tissue balance before the surgeon ever cuts. So each one of these things are not on their own going to move the needle one way or another, but the combination is what we are looking for, and it is starting to play itself out that way.

And as I commented around CORI's applicability for shoulder, at the start of the 12-point plan, we did not think about having that programme, but we actually pulled it in because we see the potential for the footprint that CORI has. It is not a large installed base, it is a handheld kind of thing. It lends itself to the shoulder space. We are on the arthroplasty side, a relatively small player in shoulder.

So it is not just about having CORI, but we have got to have a full implant portfolio. And as you know, we are on a path. We are in the early stages of launch of AETOS shoulder, and that is going to play itself out.

So this is a platform that we expect to build on. We have got great proof points already to build on it. And so overall, I feel good about how we are positioned competitively within Orthopaedics robotics.

Kane Slutzkin: Thanks. John, just maybe a quick one for you just on slide 2026 on the ROICs. You are probably not going to want to answer this post-2025, but just, I mean, you have not put the numbers in, but it looks as if Ortho is doubling its ROIC.

John Rogers: That is correct, yes. We are expecting to double the ROIC.

Kane Slutzkin: Assuming obviously you are working your way up to market growth, you have not fully annualised that number clearly, but just in 2026, assuming you do get there, should we assume that the ROICs will exceed WACC in post-year? And if it does not, how long do you give yourselves?

John Rogers: So I am not going to get drawn on when we will sort of cross the cost of capital line in Ortho, but our expectations would suggest it is sometime between 2026 and 2027. So we will see how we progress this year, but certainly a big step-up in 2025, so doubling in 2025. And then with a view to getting to our cost of capital sometime in 2026 and 2027.

Deepak Nath: The key driver there is US Recon performance. And so what you look for is continued improvement. And obviously, we have seen sequential improvement in 2024. We expect to build on that in 2025. So that will be the key kind of lead indicator, how we are going to do on ROIC.

Graham Doyle (UBS): Thanks, guys. Morning, and thanks for taking the questions. Just two for me, one on China and one on the Ortho margin.

Just on China, in terms of the Ortho and Sports med business, just begs the question now, is there a path where you basically just shut this business down? Presumably, we are not in margin accretive territory today. Just your thoughts on that, and what will be a go/no-go decision?

And then on the plant closure, so those are coming through, and we are obviously seeing better profits coming through in US Ortho in particular. Is there anything we need to think about in terms of the cost of the inventory you hold today and when this kind of better or lower COGS when inventory comes through?

And then, just as a sense for us, how much more profitable is US Ortho given the fixed cost there? Because if we think about the Q4 benefit and the context of the guide cut in late October and obviously the change there, and then we think about the better momentum continuing to 2025, it is just to get a sense of like how much more profitable is this than, say, some of the other businesses that have been growing in the last two or three years? Thank you very much.

Deepak Nath: Okay. You were acoustically hard to hear in the second part of the question, so I will do my best in terms of what I understood it to be.

However, going to the first thing about China, China Orthopaedics today at VBP price levels is not a profitable business for us. Well, why are we in it? First, it is giving ourselves the opportunity to see how the market evolves, and in particular, how robotics gets adopted in that market. And in order for us to do that, you need to maintain a certain level of presence and actually direct some efforts in developing the robotics market. And so depending on how that develops, China could get back to not what it was in terms of attractiveness from a profitability standpoint, but to a better place than it is today. So we are in Orthopaedics today to see how that market actually develops.

In Sports, it is a better picture from a profitability standpoint, post the price cut. Obviously, it is a straight impact to bottom line. Although we have adapted the channel to take VBP pricing into account, it is pretty much a good fall through impact. However, it is in a better place than Ortho is. So that is how to think about the Sports business versus the Ortho business in China.

In terms of go/no-go decision, we decided to enter into the current round of the Recon tender, and that was in March of 2024. Originally, it was intended to go for two years. There is some indications that they may extend that out to three years. So the go/no-go decision essentially would be want to participate in the next round of tender. And that depends on how the market evolves between now and then. So that is the short answer to how we think about go/no-go.

In terms of the cost of inventory, as you know, a significant part of the value of the inventory number is from the reval of inventory. And it is a fairly complicated picture. However, suffice it to say, as we go into 2026 and 2027, as inflation and the impact of inflation recedes, you should start to see what has been a significant headwind turn into a more neutral picture as it comes into our P&L.

John, did you catch his question on the 2025 guide?

John Rogers: I did not catch the question, but I just want to build on the last one. On the plant closures, just to be clear, we are already starting to see in cash terms the benefit of those plant closures coming through in terms of our cost of production. However, as Deepak says, that is moving in a positive direction. At the moment, it is being offset by the inventory reval and hence why the gross margin moved backwards slightly year-on-year, but also the China pricing effects. Over time, it takes about a year or so in our Ortho business for the benefits of those lower production costs to flow through that inventory. And that is why we are saying the second half of this year is when we are going to see that benefit come through.

It is not like we are not enjoying the lower cost today. It just takes about 12 months or so to flow through into the P&L. That is what gives us pretty good visibility on the numbers as we come through the second half. I just want to make that point clear.

And I did not catch the second question.

Deepak Nath: Okay. We need to get to another phone, but Graham, is there a 30-second kind of repeat of the second part of your question?

Graham Doyle: That is great. Thank you very much, guys. Appreciate it.

Deepak Nath: Thanks, Graham.

Hassan Al-Wakeel (Barclays): Thank you, Hassan Al-Wakeel from Barclays. Three for me, please.

Firstly, just on Q1 and the lower growth here, what could this look like ex-China, and how should we think about Group growth in Q2, and whether you expect that to be within the guidance range? Just trying to understand how back-end loaded the year is from a growth perspective.

And then secondly, related to this on margins, it is not unusual to have 300 basis points of margin differential between H1 and H2, but should we expect a more pronounced difference given the softer first half growth expectations?

And then finally, just on the additional VBP in AET, thank you for quantifying. Could you walk us through some of the underlying assumptions in terms of price reduction and volume changes that you have baked in, and what is left in Sports Medicine in China that has not yet had VBP, and how are you thinking about risks here over time? Thank you.

Deepak Nath: Okay. So maybe I will take the last one first, and then the next to last, and John, you can take the quarterly phasing.

So in terms of AET, as we indicated in terms of the top-line impact, we called out about $25 million of impact of AET. It is significantly smaller than our Joint Repair business. So for AET is a big part, but for a Group level, it is not as big a portion. However, once VBP gets hit with AET or hits AET, this essentially covers the range of impact for the China Sports Medicine business. So there is not really a lot left after this. There is a bit of capital, but that is about it.

In terms of the type of margin step-up, H1 to H2, that we are expecting, what is implied in our models is not an unprecedented level of H1 to H2 margin step-up in order to deliver the margin guidance that we have indicated. And as you can probably do the maths, if you go back to several years in terms of the delta between H1 and H2 margins, what we are expecting in 2025 is within kind of the range of what we have seen.

So you want to address the quarterly phasing?

John Rogers: Yes. I will just come very quickly to the last one. Just on the $25 million that we have guided to on AET, that is roughly split, about $15 million of that is price and volume and about $10 million is channel adjustments. So that gives you a little bit of flavour as to the shape of that impact. The H1 and H2 split, I would look to 2023. That is a good benchmark in terms of the level of step-up.

And in terms of the question around China, so if we look at our overall growth ex-China, it is up. Obviously, there is about 140 bps of difference for the full-year between our inc-China and our group ex-China growth. China does have quite a big drag on the business. In terms of our ADS growth ex-China, we should be looking at around 5% or so for Q1. And Q2, we should be looking at around 8% or so, and similar for Q3, and then a little bit of a step-down in Q4. Again, it is phased through the year. However, we are expecting around 4% ADS growth ex-China in Q1.

I hope that gives you a bit of colour.

Deepak Nath: Good. So I think we will need to leave it here. In the interest of time, I thank you again for your interest and engagement and looking forward to coming back in a couple of months' time to give you a sense for how Q1 progresses.

So thank you very much.

[END OF TRANSCRIPT]