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Sales/Trading Statement Call

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Presentation

Operator

Good morning all. I would like to welcome you to the Smith+Nephew Q1 Trading Report. My name is Rica, and I will be your moderator for today's call. [Operator Instructions]

I would now like to pass the conference over to your host, Deepak Nath, Chief Executive Officer of Smith +Nephew, to begin. So Deepak, please go ahead.

Deepak S. Nath
CEO & Director

Good morning, and welcome to the Smith+Nephew Q1 2024 Results Presentation. As mentioned, I'm Deepak Nath. I'm the Chief Executive Officer. And joining me for his first set of company results is our new Chief Financial Officer, John Rogers.

Underlying revenue growth was in line with our expected phasing for 2024, with mid-single-digit growth from Orthopaedics and Sports Medicine & ENT was partially offset by Advanced Wound Management. As we guided in February, our overall performance reflects tough U.S. comparators from the stronger environment for elective procedures that we saw in Q1 of 2023, the expected quarterly volatility in SANTYL and 1 less trading day.

In Orthopaedics, despite the headwinds mentioned, Q1 revenue growth of 4.4% was actually ahead of the prior year's 3.9%. This is a result of strong growth in Trauma & Extremities, OUS, Knees and Hips and other recon, and that was partially offset by weakness in U.S. Knees and Hips.

In U.S. recon, we're addressing the product supply and commercial execution challenges that have held us back. And with strengthened leadership, significant strides in capital availability, improved customer service and with changes to our sales force structure delivering better execution, we expect to start to see an improving performance in U.S. recon.

Sports Medicine & ENT achieved mid-single-digit growth in the quarter. And while China remains a headwind, Sports Medicine Joint Repair delivered a robust performance. This was supported by prior year product launches and further market penetration of our bioactive implant, REGENETEN, which remains a key driver of growth.

I've mentioned SANTYL's impact on Q1. For the rest of Advanced Wound Management, trading in Advanced Wound Care and Advanced Wound Devices was in line with our expectations, with our single-use PICO device continuing to drive strong growth across negative pressure wound therapy. So for the remainder of the year, we expect continued growth in Orthopaedics and Sports Medicine & ENT despite the continued headwind of China VBP and for Advanced Wound Management to return to growth. All of this underpins our confidence in maintaining our guidance for the full year.

So I'll now pass you on to John to go through the detail of today's results before I come back to discuss our strategic progress. John?

John Terence Rogers
CFO & Executive Director

Good morning, everyone. And thank you, Deepak. Turning to our revenue performance in Q1.

So revenue in the quarter was $1.4 billion, with 2.9% underlying growth, 2.2% reported after a 70-basis-point headwind from foreign exchange. 1 less trading day mathematically represents about 1.5% headwind to growth, and this impacts our surgical business actually more than our wound business, which is wholesalers in the channel.

Geographically, our Established Markets grew by 1.3%, with the U.S. down 0.6% due to the factors Deepak has just touched upon. And revenue from our Other Established Markets grew by 4.8%. Business performance in our Emerging Markets delivered strong growth of 11.6%, driven by double-digit growth in Orthopaedics.

Turning now to business unit performance, starting with Orthopaedics, which grew by 4.4% in the quarter. Global Knees and Hips grew by 1.7% and 3.4%, respectively. In OUS, we delivered double-digit growth in Knees and Hips, reflecting the benefit of improved product supply and commercial execution, driven by the 12-Point Plan. We believe this is above-market growth for the third quarter in a row. U.S. recon was slower, in part due to tough comparators from Q1 2023, but also reflecting the execution and supply issues, which have held back performance in recent quarters. While we've made good progress in operational improvements from the 12-Point Plan, we see further scope to improve commercial execution, and Deepak will talk more about this in a moment.

Other Reconstruction grew revenue by 18%, aided by further strong growth from the CORI Surgical System. We continue to benefit from CORI's unique features and versatility, and the broad adoption picture for CORI remains positive.

Trauma & Extremities continues to play an important part in our Orthopaedics growth story. Revenue grew by 7.8% in Q1, with strong growth in the U.S. reflecting the continued ramp-up of the EVOS plating system following improved product availability and capital deployments from mid-2023. During the quarter, we announced full commercial availability of the new AETOS Shoulder System in the U.S. along with 510(k) clearance for its use with ATLASPLAN 3D Planning Software. AETOS addresses one of the fastest-growing segments in Orthopaedics, and early customer reaction has been very positive.

Sports Medicine & ENT is a very attractive part of our portfolio and has demonstrated consistently high growth -- high levels of growth for many years. The business delivered underlying revenue growth of 5.5% in Q1. Excluding China, where the sector is adjusting to the volume-based procurement program, Sports Medicine & ENT grew at 6.7%.

Revenue in Sports Medicine Joint Repair was up 7.7%, with performance led by our shoulder repair portfolio, including double-digit growth from our REGENETEN Bioinductive Implant. In February, we showcased our newly acquired CartiHeal AGILI-C Cartilage Repair Implant at the AAOS Annual Meeting, both AGILI-C and REGENETEN demonstrate our leadership in products that enable biological healing for Sports Medicine and improved patient outcomes versus the current standard of care.

Arthroscopic Enabling Technologies revenue grew by 1%, with a good quarter in COBLATION and patient positioning offset by softness in our video capital sales caused by third-party supply issues, which we have now resolved.

ENT delivery -- delivered revenue growth of 9%, led by our tonsil and adenoid business and representing more normalized procedure volumes. We are in the early stages of launching the ARIS COBLATION Turbinate Reduction Wand, which uses our advanced COBLATION Plasma Technology to provide a minimally invasive way to reduce hypertrophic turbinates, a condition that requires 350,000 procedures per annum in the U.S.

Looking now at Advanced Wound Management, revenue declined by 2%, driven by the volatility in SANTYL sales that Deepak noted earlier and some tough comps. And I think it's worth pointing out here that volatility in SANTYL is not a new thing. Because of the timing of production runs and lumpy order patterns into the wholesaler channel, we tend to see quarter-on-quarter variations. These tend to average out, of course, over the year.

Advanced Wound Care revenue was down 0.5%, with good growth from our foam dressings and infection management portfolios offset by negative growth in skin care and films. In April, we announced new evidence supporting ALLEVYN Life Foam Dressing's role in pressure injury prevention.

Advanced Wound Bioactives revenue was down 9.8% in the quarter, reflecting the volatility in SANTYL just mentioned.

Advanced Wound Devices revenue grew by 8.7%, led by good growth from our single-use PICO Negative Pressure Wound Therapy System.

Turning now to outlook. With a solid Q1 behind us and our expectations for growth across the business for the remainder of the year unchanged, we are very confident in our guidance for underlying revenue growth, 5% to 6% for the full year.

Within Orthopaedics, you should expect continued good growth in Trauma & Extremities, OUS, Knees and Hips and other recon, together with improvements in U.S. recon and continued rollout of key product. We also expect further strong growth in Sports Medicine outside of China. As we said in February, VBP for some Sports Medicine products is the main headwind, with close to 2% of group sales within scope and implementation expected from May onwards.

In Advance Wound Management, we expect high growth for the year overall but potential volatility in AWB quarter-on-quarter, as I've just covered. Overall, this amounts to another strong year expected for the portfolio as a whole.

In terms of phasing, there will be 1 more trading day in Q2. Q3 will be unchanged on the prior year, and Q4 will have 2 additional days, making a total of 2 extra days for the full year.

We also expect meaningful trading margin expansion and to reach at least 18% for the year. In terms of phasing, as in prior years, trading margin is expected to be higher in half 2 than half 1, although, as we said at the prelims, with a less marked step-up than in 2023. And to give you a little bit of a better sense of margins for half 1, I'd expect us to be around 75 to 125 basis points ahead of half 1 last year.

Before I hand back to Deepak, since I joined Smith+Nephew, I've been asked for my views on the company. And I thought today will be a good opportunity just to share with you my experience so far.

I joined the company in late December 2023 and was formally appointed CFO at the start of April. So I've been in the role now for about 4 weeks. Let me just first say, immensely grateful to Anne-Françoise for completing the 2023 year-end process and, frankly, allowing me to focus on what has been a very comprehensive onboarding process. In particular, I've been able to travel extensively and meet colleagues and to engage with them about the business. I think in total, I visited at least 9 of our key locations, met with many of our leadership team, hundreds, if not thousands of our colleagues as well as spending a lot of time with Deepak, our ExCO, our senior leadership team and the finance team, of course.

My first impression of Smith+ Nephew have frankly confirmed many of the views on the business that I had before joining the company. First, I think the business has a strong product portfolio across our business units across wound, sports and ortho. A good example of that, frankly, is in Pittsburgh, a couple of weeks back with our robotics team. And fantastic to hear about some of the future developments that we've got planned for our CORI platform.

Second, the Smith+Nephew culture, I think, is particularly strong. We have 3 pillars that support our culture: care, collaboration and courage. I see a huge alignment in our business on our purpose of Life Unlimited and how our products, in the hands of our health care partners, help millions of patients every year. And this is actually particularly brought to life recently when I visited Hull and spoke to our wound R&D team. And just the enthusiasm and the focus on patient outcomes that, that team alone has in our business was great to hear, great to see.

Third, I think the 12-Point Plan has landed really well in the business and is being implemented with rigor and pace not seen in the business historically. And the fact that we're starting to see real operational improvements from this work is also incredibly encouraging.

And fourth, we do have a strong portfolio overall in sports, despite VBP in China, which is expected to show consistent growth this year. Wound, despite some of the volatility of SANTYL that we've made reference to in the soft Q1, we will see good recovery through the remainder of this year.

And actually also, the total business unit level is delivering growth in Q1 higher than this time last year, with the OUS business growing by double digits. The challenge, of course, is our U.S. ortho business, where our performance is yet to turn, despite improvements in implant and set availability. But we do expect the actions that Deepak will take you through in more detail in a moment will start to translate into stronger performance over time. As I said earlier, I'm confident we can deliver the 5% to 6% revenue growth that we've guided to this year.

So overall, still a lot to go for, lots of opportunities, more work to do, but certainly some very positive signs, which give me great confidence for the future of Smith+Nephew. I'm really pleased to be here. I've really enjoyed working with Deepak and the team over the last few months. I'm looking forward to a strong year ahead.

And with that, I'll hand you back to Deepak.

Deepak S. Nath
CEO & Director

Thank you, John. And it's really, really great to have you on the team as well. So I'd like to now update you on our current focus areas -- areas of focus for Orthopaedics, the 12-Point Plan, and some recent commercial and product developments.

So I want to spend a bit more time on Orthopaedics and talk about how we're moving from a broad fixing Orthopaedics plan to a narrower focus on sharper commercial execution in the U.S. Our overarching aim is delivering sustained profitable growth over the long term as Smith+Nephew has done in the past.

The chart on the right shows our Orthopaedics segments as a percentage share of the total group. You can see that our OUS, Hips and Knees segments have both delivered double-digit growth, reflecting improved product supply and better commercial execution coming together from the 12-Point Plan. You can also see that revenue growth in U.S. Hips and Knees declined during the quarter. Clearly, at around 15% of total group, U.S. Hips and Knees are important. But I would also point out that outside of the U.S. and at 13% of our group, our OUS Hips and Knees segment is outperforming the market.

As an aside, I remind you that we disclosed a robotic capital sales and consumable sales within our other recon segment, and that gives you a clearer view of performance. This is not the same across our peers' disclosure, making direct comparison more difficult.

The points on the left of the slide show the progress we're making on key focus areas. Orthopaedics has a new leadership team, with Craig Gaffin succeeding Brad Cannon as President of Orthopaedics. Brad spent 11 years with Smith+Nephew and made significant contributions to developing the business during his tenure, which, of course, includes initiatives under the 12-Point Plan.

Craig Gaffin joined us 5 years ago and has been instrumental in turning around our Trauma & Extremities business, which is now outperforming the market. With proven U.S. commercial execution experience, we believe he is the right person to take our Orthopaedics business forward and deliver the sharper commercial execution that we need in U.S. recon.

We've made great progress in resolving supply issues over the last year. Implant availability is now consistently good, and sets supply and deployment are getting closer to our targets. Our legacy supply issues stemmed from a disconnect between manufacturing, production and customer demand. We now have an embedded sales and operational planning process that we make sure we manufacture the right components and implants that are needed so that the sets can be completed, deployed and capital demand can be met.

We're continuing to strengthen our field team by covering the remaining gaps in our territories and have improved our compensation plan that rewards growth, as I've indicated before. We expect a new growth-oriented structure to deliver increasing benefits as it becomes a subtle way of doing business.

Overall, the new plan, with its heightened focus on profitable growth, is being well received. Customer service is obviously within our broader set of KPIs. Recent customer satisfaction surveys are demonstrating quarterly sequential improvements, with particularly marked increases in ordering and delivery and customer service interactions.

Finally, as I've said before, our key strength in Orthopaedics is the quality of our products, with sustained innovation at the heart of how we create value. In 2023, around half of our revenue growth came from products launched over the past 5 years. We have a number of exciting launches planned for the coming months. And I will touch on some of those later.

Turning to the 12-Point Plan and how we're doing here. So it's only been 2 months since I've last updated you. We've made further progress in Q1. Positive progress in Q1 includes [ortho lifer], product and cash efficiency initiatives, robotics momentum, set deployment and utilization and better spend management.

In Orthopaedics, our implant supply performance at the end of March was above target. We're more effectively deploying and turning capital, with set churns over 20% higher than they were at the start of the plan.

We're also making good progress in productivity. Q1 saw improved manufacturing conversion costs. Our factory optimization program is on track, and we have instilled better price discipline and controls across the portfolio.

The third pillar of the plan is to grow our Sports Medicine and Advanced Wound Management business units, and these are developing well. We've seen acceleration in negative pressure wound therapy. We've talked about PICO's performance today, and I'll give some details about the launch of RENASYS EDGE now. We've also more than tripled the pace of cross-business unit deals in ASCs.

So in summary, as I said in February, with the plan of this scale, there will always be elements that move at different speeds. But taken as a whole, we remain on track, and the plan is delivering very real improvements to the business.

Let me now touch on some recent and upcoming commercial and product developments. We've continued to develop our key growth opportunities this year, including new clinical evidence to support product efficacy, launches on our existing products and new innovations.

In April, we strengthened our Advanced Wound Devices portfolio with the launch of our next-generation RENASYS EDGE Negative Pressure Wound Therapy System for treating chronic wounds, which are estimated to cost $33 billion a year and affect around 8 million people. RENASYS EDGE brings an important new option to customers looking for enhanced intuitiveness, simplicity and durability and is especially important for home-care settings.

CORI is another platform where we can keep adding further growth drivers, and we've added additional functionality with version 2 of the RI.KNEE ROBOTICS software. This provides AI-powered reference values to guide planning alongside surgeon preferences.

Our innovation delivery is also about successive waves of technology. In Sports Medicine, we're refreshing our foot and ankle portfolio, introducing a suite of solutions designed for treating soft tissue conditions, including ankle instability and Achilles tendon ruptures.

We're also excited about our new CATALYST Hip Stem System, with launch planned towards the end of the year. CATALYST is a short-stem implant designed to address the popular direct anterior approach for hip replacements.

In April, the U.K.'s NICE reconfirmed its guidance, supporting the use of our single-use PICO negative pressure wound treatment device for closed surgical incisions and in patients who are at high risk of surgical site complications. We've also announced new evidence supporting ALLEVYN LIFE Foam Dressing's role in pressure injury prevention.

Since the start of the year, we've initiated 2 new sponsorships to promote our Sports Medicine business. We've been named as a preferred Sports Medicine Technology Partner for UFC, the world's premier mixed martial arts organization. Under the terms of the multiyear partnership, we can promote our brand through UFC's global presence, highlighting the repair, regeneration and recovery of sports medicine injuries through our advanced technologies. We're also pleased to announce that we'll be sponsoring both men's and women's tennis players during some of the most high-profile matches at Wimbledon this summer.

So in summary, a solid performance in Q1 despite the expected phasing headwinds. Much of the business is performing strongly, OUS, recon, Trauma & Extremities, Sports Medicine Joint Repair and negative pressure wound therapy. As we move through Q2, our collective focus remains on addressing the remaining areas of weakness in U.S. Knees and Hips and on driving further operational and financial improvements across the business.
So thank you for listening. With that, I'll hand you back to the moderator for Q&A.

Question and Answer

Operator

[Operator Instructions] We will take the first question from Jack Reynolds-Clark from RBC Capital Markets.

Jack Reynolds-Clark
RBC Capital Markets, Research Division

Three for me, please. So just starting with U.S. joints. So you ran through some detail about the improvements you're making here. I was wondering how kind of the improvements are tracking versus your initial expectations and when you're expecting an inflection here in the level of growth.

Then on SANTYL, obviously, appreciate when you called this out kind of ahead of time. But what's the level of weakness here kind of in line with what you're expecting? Has the weakness troughed? Do you expect a rebound kind of in Q2 and through the remainder of the year?

And then my last question is on the kind of the LCDs news out last week. Can you talk us through your current thinking about how this latest draft would impact Smith+Nephew?

Deepak S. Nath
CEO & Director

Sure. I'll take those in turn, Jack. So first, in terms of the U.S. Knees, it's -- clearly, there's been improvements in the key building blocks of our transformation plan, which starts with improvements in supply and product availability, our ability to connect supply and demand, commercial execution and our innovation. So most of those elements have actually tracked relative to plan. Commercial execution is the one area in the U.S. where it has been slower.

So the combination of all of these elements coming together, translating into financial performance, has been a bit slower to come than we expected. But we do remain very optimistic that as we move through Q2 and into the rest of the year that all the operational improvements that we've seen will translate into better financial performance.

On the SANTYL question, the transition of manufacturing into Fort Worth last year. During that transition process, our shipments in Q3 were delayed, were pushed out into Q4. And as we signaled at our year-end results, we expected to start Q1 soft on the basis of that pushout.

In general, the SANTYL business is quite volatile over a long period of time. And so it's not weakness in end user demand. It's really volatility driven by production, kind of how the production process actually runs. And of course, we go through distributors here that adds another volatility to it. But there is no change to demand for SANTYL at the end user. And as we said, we expect to get into a growth mode in bioactives as well before the balance of the year.

John Terence Rogers
CFO & Executive Director

I mean, Jack, I'm just looking at sort of our forecast for the full year. And notwithstanding the fact that we say this is sort of intra-quarter, it can be lumpy for the reasons we've given. We're showing -- we're expecting growth for the full year. That's not sort of 1 million miles off our overall guidance for the full year. So that demonstrates that we expect to see a little bit of a bounceback come through in Q2 and then consistent growth through Q3 and Q4.

Deepak S. Nath
CEO & Director

And regarding LCDs, they -- of course, it's a draft guidance here. We'll see how it all shakes out here. It does impact a subset of the types of wounds. It's, in particular, diabetic foot ulcers and certain chronic wounds. On balance, there's puts and takes here. There's as many reasons to be excited about what it entails as there are opportunities to have a more negative impact in our portfolio. Overall, on balance, I think, will be -- it doesn't fundamentally change our position and our prospects in bioactives.

We can go through the details here around particular impacts on particular products within our portfolio and the indications entailed, and I'll refer you to our IR team for that. But the headline is there are puts and takes here in general that does not change our prospects within that category.

Operator

Your next question comes from Caitlin Cronin of Canaccord Genuity.

Caitlin Cronin
Canaccord Genuity Corp., Research Division

Just to go further into the U.S. recon performance. I understand that the supply in Knees has really been challenged with OXINIUM. And seeing if that's improving there, I understand there's lag in performance. But what was the issue with Hips? Was it purely comp and execution-related?

Deepak S. Nath
CEO & Director

Yes. Caitlin, thanks for the question. So yes, as you flagged, we had challenges with OXINIUM supply, and in general, supply of the particular SKUs and products that are used in the U.S. in certain markets were impacted. And in fact, we're slow to recover with the improvements that really came through at the end of the year.

So first, we prioritized, of course, replenishing our implants and then to actually start to build sets. So the delivery of sets to fuel new growth actually came at the very end of the year. And there is a lag, Caitlin, as you can appreciate, between when you place that capital and then starts to turn into a steady-state business, right?

And as you note, that's primarily Knees. And as we indicated at various points last year, the supply situation with Hips did get better earlier in the year. The common thread here is around commercial execution. Specifically, we had a certain amount of churn with our sales force. We were expecting some of that. It tend -- it actually happened later in the year than we were expecting because the market in general was actually better in the first part of the year in terms of how we experienced it. So that resulted in a number of gaps across our territories through the course of 2023.

We have more or less covered those now as we start through the year. And as we look ahead through balance of Q2 and Q3 and Q4, we expect to, in the U.S., bring together all the improvements around supply, the innovations that we brought forward, the commercial processes that we've improved, the new growth-oriented commercial plan that we put in place and, of course, now territories that we've now filled. So all of those things to come together to translate into financial performance that we have seen outside the U.S. as well.

Caitlin Cronin
Canaccord Genuity Corp., Research Division

Awesome. And then just a quick one on foot and ankle. You pointed out sports med portfolio refresh. Any plans to refresh your recon side of your foot and ankle [offense]?

Deepak S. Nath
CEO & Director

So we've got a pipeline as well in foot and ankle. So we will call out particular kind of new product introductions as they come to market. So we've got quite a robust pipeline. Innovation has been key to Orthopaedics across the board. I flagged some of the more salient ones that are relevant for the current year. So you should look for us to kind of give you updates as those programs mature.

Operator

Your next question comes from Hassan Al-Wakeel from Barclays.

Hassan Al-Wakeel
Barclays Bank PLC, Research Division

I have 3, please. Firstly, can you maybe talk about the OUS Hips and Knee business, which, to your point, Deepak, is outperforming the market? What do you put this down to? And what are the key takeaways for the U.S. business that gives you confidence here?

Secondly, on guidance. I guess given the softer start to the year, at least, versus expectations, is the lower end of the guidance range on growth more likely? And what are the key risks to your mind to get to the upper end of the range?

And then finally, you note that you've changed the compensation plan for reps. Are you seeing the churn of sales reps stabilize here?

Deepak S. Nath
CEO & Director

Sure. I'll take those in turn. OUS, as we've said, the transformation plan for Orthopaedics, we labeled as fixing Orthopaedics in the 12-Point Plan. And there was a number of elements to that, right? As I said, it's fixing supply or product availability. It's continued investment in innovation, accelerating some programs, reprioritizing programs. It was about commercial execution. And then, of course, all the improvements we're making in the factories. So all of those added up to us fixing Orthopaedics are at large.

We've -- OUS, we brought all of these operational improvements together with enhancements in commercial in a way that's translated into financial performance that is readily discernible. In the U.S., as I indicated, the product availability topic, the improvements came later in the year because the particular SKUs and particular products in the U.S. were slower to recover. Part of it was OXINIUM -- most of it was OXINIUM, but there were other factors there at work as well. So those improvements came later in the year in '23 relative to some of the portfolio that's relevant for U.S.

So that's the key difference here is in terms of the product set that's more relevant to the OUS markets versus the U.S. markets and the bringing together of all of these different strands of improvement and translates into financial performance.

So what I expect to see in the U.S. is inherently all of these factors also coming together in the U.S. in the way they came together in OUS markets. Of course, there's differences in markets. The dynamics are different. The competitive position is different and so forth, right? But I expect a similar kind of trajectory to manifest in the U.S. as it did OUS.

The particular factors here really are around some of the sales rep churn that occurred and when it occurred during the course of the year. And as I mentioned, those territory gaps impeded our ability to offset the normal churn that happens in this business -- with new business. So we have the normal amount of churn, and we just weren't able to offset that with new business as we normally would. But as we look ahead into the new year -- in the balance of the year and we look at our pipeline, I feel confident that we'll be able to see the turnaround in U.S. performance, as you've seen elsewhere.

And in terms of the guide for the year, it's important to note that Q1 came in, in line with our expectations. This is how we had planned the year in terms of phasing. And therefore, the range that we indicated, the 5% to 6% growth, was taking into account the kind of Q1 results that we presented here. So I wouldn't read into it that we're now somehow in the lower end of the range as a result of Q1. In fact, this Q1 came in just as we had planned for.

In terms of comp plan, this is more relevant to the U.S., in particular, where we needed to move off of a more retention-oriented comp plan to a growth-oriented comp plan. We expected some churn to come out of that, as I've indicated in other calls, because the market, particularly in Q1, was so strong, we didn't see that level of churn early in the year.

And in terms of where we expect to net out, this sales churn is a key part of the business. It's about -- it's tied to performance management, a tighter level of performance management we expect to instill as we move to a more rigorous and disciplined commercial organization. So it's not the case that we're necessarily looking to churn off to 0, but it's more about managing how that churn occurs.

So I remain bullish about our prospects and managing through that and post -- returning into a growth posture in the balance of the year.

John Terence Rogers
CFO & Executive Director

And just to build on Deepak's comments on guidance, I think you asked the question, what do we see as being the key risks for the year? I think we've really already called out the key risks and area of uncertainties. Obviously, the impact of China VBP, we expect that to start to impact us from May onwards of this year. And as we've already highlighted, we expect that to be a sort of a -- reflecting in our forecast, a 5% headwind, to our overall sort of sports joint repair business. So we've already factored that into our overall outlook for the year, the 5% to 6%. But that's probably the one key area of uncertainty as it plays out through the year.

Operator

We now have Julien Dormois from Jefferies.

Julien Dormois
Jefferies LLC, Research Division

John, welcome to Smith+Nephew. My question is basically a follow-up on Jack's question about the U.S. Knee performance. So do you believe that you could return into positive territory in U.S. Knees from Q2 onwards? Or is it more reasonable to think about this being more an H2 thing?

Second question is, could you please elaborate on your prospects for the next-gen RENASYS EDGE, typically reminding us of what could be the addressable market here and what is your current market share at the moment?

And the third question is, unless I missed it, I see no mention of the 2025 guidance. So just making sure that you are still very comfortable with the '25 guidance as you have indicated previously.

Deepak S. Nath
CEO & Director

Julien, so thanks for the questions. First, I'll start with the last one first. There's no mention of it because there's no change to our guidance. It remains where we've left it, which is expect to achieve a 20% margin in 2025, with consistent 5-plus percent growth. So there is no change to that. That's why we haven't called it out.

In terms of U.S. Knees, we expect -- we've guided the market to 5% to 6%. We don't necessarily break that out by business unit or by quarter. But when you do the math in terms of where we are today and what needs to happen in order to get to 5% to 6% growth, we expect each of our businesses to contribute to that. And when you do the math of it, basically, what you are able to back out is that the U.S. recon business needs to be a contributor to growth, i.e., get into positive territory, which is what we're expecting.

And I think -- RENASYS EDGE, I knew I missed one thing there, Julien. So RENASYS EDGE is our new entry. Fundamentally, it's about -- easier to use, more durable, more reliable are kind of the key features of RENASYS EDGE. We are about a 10% player within this category. And it's about a little over $1.5 billion, $1.6 billion, $1.7 billion market that we're launching into.

So here, it's about really our post-acute setting is what we're focused on with RENASYS EDGE. And it's one of the elements of the 12-Point Plan that we've called out. So in this quarter, we gave prominence to

PICO, which has been a big growth driver for us in wound. And we're expecting that RENASYS will be a significant driver for negative pressure as we move into the rest of the year as well.

Julien Dormois
Jefferies LLC, Research Division

Okay. That's very helpful. Just a quick follow-up on that, the $1.5 billion to $1.7 billion market, does that exclude the single-use negative pressure market? Or is this -- the negative pressure market, as a whole, including the...

Deepak S. Nath
CEO & Director

It's the traditional negative pressure market, yes.

Operator

We now have Veronika Dubajova from Citi.

Veronika Dubajova
Citigroup Inc., Research Division

And I will keep it, please, to 2. My first one is on this first half on trading profit margin guidance that you've given this morning and your thoughts on what best implies for the back half of the year. And first of all, thank you for giving us some clarity on where you think the first half comes in. I'm just trying to understand, I mean, I think historically, you've talked about a 200 to 300 basis step-up H1 to H2. Obviously, if you were to deliver only that, I think in the second half of the year, you end up at a margin that was a little bit down year-on-year.

And so I just want to confirm that your expectation is that you can, indeed, improve margins on a year-on-year basis in the back half of the year as well. And apologies, because you've just given us H1. And I'm asking you about H2, but I think it's quite an important point. And maybe, John, if you can just remind us of the drivers of that margin improvement year-on-year in the back half of the year, that would be super helpful.

And then my second question is just on the management changes in Orthopaedics, Deepak. I think quite a lot of people surprised by Brad's departure. I don't know if you can share any color. And then maybe just give us an update on what you are seeing in terms of sales force turnover in Q1 versus Q4 last year.

Deepak S. Nath
CEO & Director

Sure. John, you want to take the margin, and I'll come back and comment on both?

John Terence Rogers
CFO & Executive Director

Yes. Thanks for the question. Look I think the guidance is -- dare I say, it's sort of super clear. First half, we're expecting the first half margin year-on-year to go up by 75 to 125 basis points, somewhere in that range. And we're expecting the full year margin to be north of 18%. So I'll let you do the math on what that means for the second half of the year.

But to your point, you talked about the half-on-half increase. And last year, we delivered 4.1 percentage points increase half-on-half. We've said very clearly though, at the prelims, it wouldn't be that big step-up for 2024. But in the past, we've delivered somewhere, on average, between sort of 3 percentage points and 3 to 4 percentage points. So I'll let you do the math, but we're very clear that we expect the margin to outturn for the full year at 18%.

Just in terms of what are the key drivers for that, there's a couple of key things that we set out in our -- in the prelims, one of which is the productivity savings that we see coming through as part of our 12-Point Plan, particularly in the manufacturing areas. And great work being done on lean and how do we make and create our lean manufacturing operation. And of course, the revenue leverage coming through, particularly given that we've got, of course, 2 additional days in the last quarter.

There will be some offsets there. So again, I mentioned earlier on the impact of VBP in China. So that will be one offset, but taking all of those things in the round, we remain confident in our ability to deliver 18% plus for the full year.

Deepak S. Nath
CEO & Director

Regarding personnel, obviously, we don't, a typical practice, comment on individual personnel decisions. Having said that, Brad had spent 11 years with Smith+Nephew, had tremendous contributions to the company during his tenure here across both Sports Medicine and in Orthopaedics through a variety of roles.

And it was an amicable parting. And one of the things that Brad has done is actually develop talent. And Craig was a member of Brad's leadership team. He was part of the succession plan. And now as we focus on the remaining parts of Orthopaedics that we need to turn around, U.S. commercial is one of them. And in the choice of Craig to succeed Brad, we're appointing a leader, who was a proven leader with a spike in U.S. commercial. And we're looking forward to him carrying us through the rest of the journey from a transformation perspective.

Veronika Dubajova
Citigroup Inc., Research Division

Excellent. And Deepak, anything you can share on the turnover in the sales force more broadly after the fourth [indiscernible]?

Deepak S. Nath
CEO & Director

Yes. Yes. Yes. So the key here, we -- as I indicated, Veronika, we had expected turnover on the back of the transition to a growth-oriented plan, right? It was -- the key is to manage that turnover. There was a timing effect in terms of when that occurred in 2023. I'd also previously talked about gaps in certain territories in certain parts of the United States through much of '23. We're kind of slow to cover those gaps.

But as we turn the page into Q1, we've essentially -- have on board a full strength in terms of the U.S. organization. As you all know, depending on when those territories get filled, it takes a while for reps to become productive and to lap the losses. So we're in the throes of that in Q1. But in contrast to last year, we now have the organization that we need. It's not to say that the churn is going to go to 0, but we do expect to operate with the full strength through the bulk of the year.

Operator

Your next question comes from Dylan van Haaften of Stifel.

Dylan van Haaften
Stifel, Nicolaus & Company, Incorporated, Research Division

Excellent. So just 2 for me, both on the LCD changes. So just first, I think when I saw the headline, my general thinking was this is probably a net gain for Smith+Nephew. And I think, Deepak, you spoke specifically about some puts and takes. Could you just maybe reflect on those for me so I can kind of understand what I'm missing?

And then secondly, are customers destocking, awaiting a final decision? Or should we expect a couple of weaker quarters given some of the channel volatility? Or is that all pretty managed on your end?

Deepak S. Nath
CEO & Director

Short answer is it's pretty well managed. Just for the benefit of everybody, so those LCDs particularly impact diabetic foot ulcers and venous leg ulcers, right? And together, they comprise about 35% to 50% of our portfolio within that.

So as you mentioned, on the plus side, we've got products that actually have great clinical data behind them, right? And so in that sense, we expect to benefit from the fact that there's some that are covered and others that are not. Of course, there are certain categories of graphics or subtypes that we expect not to be covered by this.

So it depends on kind of how the translation of draft goes in and what gets finalized there. But in our reading, when you look at the categories that are impacted, I called out the 2 -- the foot ulcers, the setting, right, hospital, physician office, home and the particular subcategories within that. Overall, like I said, it -- the puts and takes, and based on this, we don't see a need to kind of materially change our outlook for this category.

In terms of volatility, we're not necessarily seeing destocking. We're not anticipating that. So in general, we expect that this will kind of work itself out during the course of the year. So we're not, in particular, calling a volatility here.

Operator

Your next question comes from David Adlington of JPMorgan.

David James Adlington
JPMorgan Chase & Co, Research Division

My question has been asked already. But maybe just a quick follow-up on CORI, which you haven't talked about very much. You had a few quarters now of a very different growth profile. I just wondered if you could give some color in terms of what's behind the strong acceleration there.

Deepak S. Nath
CEO & Director

David, I couldn't acoustically hear you. Would you mind repeating the question?

David James Adlington
JPMorgan Chase & Co, Research Division

CORI, we've had a few quarters now, a very much stronger growth profile there. Just some further color behind the strong acceleration.

Deepak S. Nath
CEO & Director

Yes. So as you note, great quarter. Again, it's our other recon number that kind of captures CORI sales. I continue to be pleased with the traction we're getting with CORI. When you look at its resonance across a range of settings, whether academic medical centers, hospitals, AFCs, single-unit deals, multiunit deals, across the board, very, very pleased with the level -- with the kind of reception we're getting. We're placing CORI's kind of -- in a proportion that's higher than our kind of overall share within Orthopaedics, right? That's also quite encouraging.

And what is also important to point out that the story has just started here with CORI. And in fact, we brought forward new and added functionality, right? In addition to burring, which is, of course, differentiated -- the burring-based approach is differentiated in the market. We also added [song] capability right to this. We also signaled that we will be bringing forward pre-op planning capability to add to the only platform in the market that is image-free. And then there's a whole pipeline of CORI on the hip side as well, and we remain actually very optimistic about its prospects in shoulder.

So we're just getting started with CORI. We talked about some of the AI-powered planning capability we brought to market, the tensioner, the ability to do soft tissue balancing before cuts, which is highly unique in the market. All of these things are adding to the kind of reception, the kind of resonance that we're seeing with CORI. We're, even in last year, the market-leading robotic platform across EMEA. We've only built upon that position.

So there's great things to come. It's one of our growth drivers in Orthopaedics. So once we're past some of the supply and the product availability challenges and retooling the commercial organization, which, as I've indicated, well along that journey, OUS, we're poised to do that, particularly on the commercial side in the U.S., you should start to see that catalyze even more growth in the U.S.

David James Adlington
JPMorgan Chase & Co, Research Division

Maybe just a follow-up there. You mentioned your strength in EMEA. Has that been a driver of your strength in ex U.S. as well?

Deepak S. Nath
CEO & Director

It's part of it. It's part of it, David. But actually -- I mean OUS, it's a bit of an antiquated term, I guess, right? It's the whole rest of the world. So there's markets where we perform well, and there's products where we don't perform well. But overall, EMEA is one of the growth drivers, and CORI is a key component to that.

But it's not just that. In fact, there are other markets besides EMEA, where we continue to do well there. So it is pretty broad-based when we say OUS. But as you currently -- correctly observed, CORI is a key part of that.

Operator

We have now Sezgi Ozener from HSBC.

Sezgi Ozener
HSBC, Research Division

I will also have 2, please. One on Sports Medicine. Thanks for quantifying your expectation that when it comes to industry, you expect about 5% to 6% impact on Sports Medicine. Just to understand this better, what kind of a pricing impact do you expect initially? And in terms of volume, what's the volume impact you're looking for? And what's the share of the VBP deal that you're expecting to get on your side?

And my second question, again, actually relates to CORI and the U.S. You just -- our understanding was in the U.S., about 15%, even north of that, of the operations already are in robotics. So will the impact -- will the delay in U.S. recovery have an impact on your robotics sales? Or is the interest towards CORI in the U.S. still strong? Can you differentiate between the robotic use and, otherwise, when you're dealing with the supply shortages within the U.S., such as, for example, prioritizing clients that have CORI so that they remain longer with you?

Deepak S. Nath
CEO & Director

Yes. Sure. Let me take that. So first of all, just to clarify, with the -- part of our portfolio that we flag will be impacted by sports VBP. It's joint repair, and it's 5% of joint repair in China in terms of what our exposure is, right? So I just want to clarify that.

In terms of how we see it playing out, we talked about the time frame. In terms of the price level of impact, we've got some sense now as to what the price level is. We've indicated that on previous calls. It's kind of in line with what we saw in Orthopaedics, right, in terms of the difference between what we see to end user pricing versus what we actually see [are the impact]. So generally in line with kind of what we saw in Orthopaedics.

In terms of the volume offset, we haven't particularly guided you to that. And so it will be a little bit too much detail for us to kind of go into it. So we've given you an indication as to the impact of our business, so as we called out, 5%. We've given you an indication to, at a group level, what the margin impact from these price moves are likely to be, which is around 70 bps in the year. So hopefully, that gives you a sense for both the scale of impact to our business in China and how that translates to a group level impact.

Turning now to CORI. So our utilization, the last number we gave you is about 1/4 of our knee business currently flows through CORI. And that utilization rate has remained -- has been growing even as our installed base is growing. So it basically tells you that where we're placing CORI, we're seeing utilization, which is the play that we are running.

In terms of how we prioritize our customers, obviously, that's a commercially sensitive type of information. I hope you understand we won't want to go into on this call. But in general, as I said in my earlier response to David's question, I am very pleased with the traction that we're getting with CORI across markets and, in particular, questions related to the U.S., in the U.S. market across a range of settings.

In terms of the supply challenges, as you talked about, we are largely on the other side of those. So our replenishment, even for U.S. specific categories, is at our target now as we start the year, right? We kind of got to that point towards the end of last year, later than for some of the other categories.

And in terms of set deployment, which really fuels new growth, those sets are starting to flow. We're not yet at target levels there, but we expect to be here in the coming months. And so we're largely on the other side of product availability. So to some extent, that question that whether we prioritize CORI customers or not is a bit moot because now we don't expect availability to gate our progress.

So coming back to kind of the key message here, great traction with CORI in the United States. It's a catalyst for growth, has resonance across a range of settings. And we expect it to be a key growth driver for us as we move forward.

Sezgi Ozener
HSBC, Research Division

Just to clarify, the quarter of new business flowing to CORI is a global ratio? Or how does it differ OUS from the U.S.?

Deepak S. Nath
CEO & Director

It's the U.S. is that statistic. So that's typically what we disclosed. It's -- the market practice is very -- in general, the U.S. tends to be higher than OUS. But we haven't specifically broke our utilization to OUS.

Sezgi Ozener
HSBC, Research Division

Okay. That's the U.S. ratio.

Operator

As we have no more questions, I'd like to hand it back to Deepak Nath for any final remarks.

Deepak S. Nath
CEO & Director

Great. So thank you very much. We -- as we indicated, it's a solid start to Q1. We remain committed to achieving our targets for the year. We confirmed our outlook. And as addressing the question today, as far as 2025, we remain committed to the 20% margin target and 5-plus percent growth.
So thank you very much for your attention, and looking forward to coming back next quarter.