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Smith+Nephew - Q4 and Full Year 2022 Results

Tuesday, 21st February 2023

Introduction

Deepak Nath

CEO, Smith+Nephew

Summary

Good morning, and welcome to the Smith+Nephew Full Year 2022 results presentation. I am Deepak Nath, Chief Executive Officer, and joining me is Anne-Françoise Nesmes, who is the CFO of the company.

So I am pleased to report a good finish to 2022. Underlying growth accelerated versus the first nine months, with all of our franchises contributing. We have continued to outperform in Sports and Advanced Wound Management, which generate around 60% of Group sales.

We are still early in our work to fix Orthopaedics, and although growth improved there too, it will take some time for us to get to where we want to be. The company is well-positioned going into 2023. We are transforming the way we are operating Smith+Nephew through our 12-point plan, driving greater rigour and execution as we deliver our Strategy for Growth.

Delivery of the 12-point plan is progressing and our KPIs are already moving in the right direction, and I will share some of that data with you later. But with improving operations and a good exit from 2022, we expect both faster growth and margin expansion in the coming year.

We are also updating our mid-term targets. On growth, we feel very good about the outlook. We are continuing to execute well in our outperforming businesses, and the fix of orthopaedics is underway, and we are delivering a high cadence of innovation. For the margin, the macro environment has been more challenging than we, or everyone else, expected back in 2021. Inflation has been higher, and global supply chains have stayed disrupted for longer.

Our mid-term goals reflect offsetting most of that additional pressure through a range of cost actions. However, it has also meant moving the date of our margin target back by a year.

Shortly, I will cover how we will deliver the targets of consistent 5% growth or above, and at least a 20% trading margin by 2025. I see the delivery, and more importantly, the fundamental improvements required to achieve them, as the first step in our ambition of transforming Smith+Nephew. But first, I will begin with the highlights of our full year numbers.

FY 2022 key figures

So revenue was at $5.2 billion. That is 4.7% growth on an underlying basis, with one less trading day than in 2021. Reported growth was at 0.1%. Trading profit was $901 million, which is an 17.3% trading margin, and we generated $444 million in trading cash flow, a 49% conversion.

Adjusted earnings per share grew 1.1% to $0.818, and we are proposing an unchanged dividend of $0.375 cents for 2022.

I will now pass you to Anne-Françoise to go into the detail of today’s results, before I come back to discuss our outlook in more detail. Anne-Françoise?

Q4 2022 Revenue

Anne-Françoise Nesmes

CFO, Smith+Nephew

Q4 2022: Momentum across all franchises

Thank you, Deepak, and good morning, everyone. I always wonder why nobody sits on the first row, so hopefully you can see me behind the lectern here.

So I will start by covering the fourth quarter revenue, which was $1.4 billion, which represents a 6.8% underlying growth. As Deepak said, all three franchises contributed to the strong finish. And the factors behind that, included a reduced VBP headwind in the quarter and the contribution of new products.

We have also made progress with product availability, which has limited our growth in recent quarters. Our internal supply chain performance is starting to improve, and while there are still challenges in the availability of external inputs, like semiconductors, resins, sterilisation capacity, we are seeing some easing.

Looking by geography, the performance was broad-based. The US grew by 4.8%, Other Established Markets grew 7.3%, and Emerging Markets grew 12.1%. Acceleration in Emerging Markets reflects largely a return to growth in China, which represents 6% of our Group sales. While VBP was still a headwind in Q4, there was also an easier prior year comparator, due to the inventory adjustments and provisions that we took back in Q4 2021.

The renewed COVID waves in China, as the country changed its approach to new outbreaks had an initial limited impact in Q4, but increased as we moved into January 2023, so we do expect a more noticeable headwind in Q1.

Orthopaedics

I will now go into the detail of the each franchises, and I will start with Orthopaedics, which grew 4.1% underlying. This is the part of our business which is impacted by VBP. Without China, growth in the quarter would have been 1 percentage point higher in Knee, 2 percentage points higher in Hips, and 0.4 points higher in Trauma and Extremities. That aside, innovation across the portfolio is a key part of our picture and our performance.

Recent launches are already contributing to the growth, and together with our robust pipeline, are improving our growth outlook for the coming years.

In Hips and Knees, we have advanced with our plan to improve our performance, including new products. First, our cementless total knee, LEGION CONCELOC, continued to ramp up with strong sequential growth. With this as an option, we have an impressive knee portfolio.

We have the:

- Only kinematic knee;
- Oxinium surface technology;
- Cemented and cementless options; and
- Robotics platform uniquely covering all of total, uni, and revision knee surgery.

Our implant availability also improved over the previous quarter. Overall growth is not yet where we are aiming to be, but we are in a better position than we were when we initiated the 12-point plan, and we expect further improvement in the coming quarters.

Other recon, which includes CORI, was paced by component availability for much of the year. However, we still made good progress in 2022, both in developing the technology, and expanding the utilisation of CORI.

We had a series of major FDA clearances, including a unique revision indication, the unique digital tensioner, the hip software, and porous knee. We expect a similar cadence of clearances in 2023. This is part of our robust pipeline of innovation that will continue to drive growth in the coming quarters.

On penetration for CORI, we expanded our installed base by around 25% in the year, and the volume of knee procedures by around 50% globally. We should see adoption accelerate in 2023 as supply improves, and we expect our install base to grow by more than 300 units in the year.

And finally, Trauma & Extremities returned to growth, at 0.6% in the quarter helped by the rollout of EVOS Large plates following the launch in Q2. Our Trauma offering is complete and we are well-positioned us to compete effectively for RFPs and tenders.

Market exits such as the one we did in China Trauma, are value creating, but also do represent a short-term headwind in the quarter.

Sports Medicine & ENT

Moving to Sports Medicine & ENT franchise, which grew by 9.2%, despite a challenged supply chain. Joint Repair grew 11.5%, with double-digit growth in both shoulder and knee. And REGENETEN has been a multi-year driver of growth. We have continued to invest in new indications, in new regions and evidence, and we are now seeing growth reaccelerate.

There is also significant further potential for REGENETEN as we launch in Japan, in China and India in 2023. AET grew 4.2%, driven by both the core AET and Werewolf Fastseal, and a softer prior year comparator.

ENT grew 17%, as the post-COVID recovery in tonsil and adenoid procedure volumes continued. As I said earlier, this is in the context of headwinds from semiconductor, resin shortages, sterilisation capacity constraints. So a very strong performance.

Advanced Would Management

Finally, in Advanced Wound Management, grew 8% underlying. The recent pattern of balanced performance in the quarter across all regions and categories continued. In Advanced Wound Care, Europe and Asia-Pacific showed particularly strong growth, as did our skin substitutes business in Bioactives.

Advanced Wound Devices grew 14.9%, with double-digit growth from our single-use negative pressure product, PICO. Our traditional platform, RENASYS, is another product that was limited earlier in the year by component availability. The situation improved in Q4, and RENASYS returned to more significant growth as a result.

We also reached significant milestone as we obtained 510k clearance from the FDA for RENASYS EDGE in the US.

FY 2022 Financials

Now I will move on to the detail of the full year financials.

FY revenue by franchise

Revenue for the full year was $5.2 billion, up 4.7% on an underlying basis compared to 2021. Reported revenue was flat at 0.1%, due to a foreign exchange headwind of 460 basis points, given the strength of the US dollar compared to other major currencies.

As you see on the chart here, Sports Medicine and Wound showed 6.7% and 6.4% growth, respectively, and Orthopaedics grew 1.9%. These full year growth rates also reflect one fewer trading day than in 2021 as Deepak mentioned earlier.

FY trading income statement

Now having covered revenue in detail for Q4 and the full year, I will move to the summary of our P&L, before expanding on some of the key elements of the P&L. The underlying gross profit was $3.7 billion, resulting in a gross margin of 71%, which is a decrease of 10 basis points. And you have to understand, there were significant moving parts behind that. For this year, the headwind of raw materials inflation that we have talked about, at gross margin, level was offset by price increases and other movements in inventory valuation.

The SG&A line here in the P&L reflects higher inflation in freight and logistics as well as sales and marketing expenditure levels returning to more normal after COVID.

Trading profit was $901 million with a trading margin of 17.3%, and I will walk you through the evolution of the margin.

FY 2022 trading margin bridge

So looking at slide 13, you will see a more detailed explanation of our trading margin bridge. The major headwind for the year in 2022 came from China VBP and input cost inflation. On input costs, if you remember, we had guided initially to 125 basis point headwind at the start of 2022, but the pressure increased as the year progressed, and ultimately came to 210 basis points for the full year.

We worked hard to offset the headwinds. Notably, we were able to drive price increases improving margin by 80 basis points.

And then we had quite a lot of activities. On the slide here, maybe there is too much of a summary but there is a lot of moving parts behind the net pricing and the net cost savings you see here of 130 basis points. In particular, 130 basis point reflect the benefits of significant cost reductions and operating leverage offsetting labour inflation.

FY operating profit and EPSA

Now looking further down the P&L, adjusted earnings per share grew by 1% to $0.818. That is primarily driven by lower net financial expenses, and a lower tax rate due to adjustments in respect of prior years.

FY cash flow

And looking our cash flow, we generated trading cash flow of $444 million in the period, with trading cash conversion at 49%, which is disappointing, and lower than our typical level. We do expect our trading cash conversion to return to more normal historical levels in 2023,

however. The change in 2022 was mainly due to a higher inventory, which you can see in the capital outflow of $477 million.

FY 2022 inventory bridge

And we wanted to illustrate and explain the change in the inventory and what drove the inventory growth. The largest single contributor of inventory growth was strategic raw material buying, as part of managing through the unpredictable availability of some materials. You can also see here the impact of inflation on the average value of our inventory; in addition to some increases that we made to support growth, would it be building inventory ahead of new product launches, increasing safety stocks, or building stock in markets where we expect the growth acceleration for existing products.

Clearly, we recognise that the starting point at the end of 2021 was already too high, and particularly in Orthopaedics. This is why inventory is one of the key focus areas in the 12-point plan. And we expect to reduce inventory days as we move to 2025, with steady progress each year.

Strong balance sheet

To conclude on the financials, net debt ended the year at $2.5 billion. That is an increase of $486 million in the year, with $113 million due to the acquisition of Engage Surgical as well as deferred payments from previous acquisitions, and an additional $158 million from a share buyback.

The effect of that is the leverage ratio finished at 2.0 times adjusted EBITDA, which is similar to recent levels, and in line with our target of 2 to 2.5 times.

2023 outlook

And now I will move to the outlook for 2023. You will have seen this morning that we are guiding for underlying revenue growth of 5-6%. Within that, we expect continuation of the above market growth in Sports Medicine and Advanced Wound Management, and we also expect further improvement in Orthopaedics. This will be driven by better commercial execution, and growth from new products, as we continue to implement the 12-point plan.

There will be phasing effects through the year. We are seeing the renewed COVID waves in China impacting surgical volumes, and therefore we also still have another quarter before we fully lap VBP during Q2. That means that Q1 will be slower, with acceleration as the year progresses and the China headwinds subside.

On trading margin, we expect the 2023 trading margin to be above 2022 level, and at least at 17.5%. Clearly, there is a lot of moving parts behind the margin, as you can see on the chart on the right, there is several components building that margin. We will continue to see margin headwinds from the macro environment, which remains uncertain. However, we more than expect to offset those headwinds. That will come from a combination of positive operating leverage and productivity improvements under the 12-point plan, including specific cost actions that we are setting out today.

Looking at the detail on the chart on the right, you can see that transactional FX will be a headwind of around 100 basis points from the dollar strength in 2022. There is also continuing raw material cost inflation, and some of that is a delayed impact as we work through inventory that is based on higher purchase prices.

We will partially offset this through pricing actions, and productivity improvements in COGS and manufacturing. Higher than usual staff cost from wage adjustments in the second half of 2022, and the usual merit increase in 2023 will largely be offset with commercial and G&A savings. And revenue leverage will provide the remaining offset.

So taking all of these variables into account, we expect to trading margin expansion year-on-year. We have also updated today our mid-term targets, and I will hand you back to Deepak to cover that.

Delivering on our mid-term commitments

Deepak Nath

CEO, Smith+Nephew

Updated mid-term targets

Thank you, Anne-Françoise. As you know, we first issued the mid-term guided a little over a year ago. Since then, a lot has changed. The macroeconomic environment has been more challenging for everyone, with higher inflation, and longer disruption, as I said earlier, to our supply chains. And that continued all the way through 2022.

We have also made progress. We have started the implementation of our 12-point plan, that has fundamentally transformed how we operate as a company. Our new mid-term goals reflect both the changes in the macro environment over the last year, and also the actions we are taking to offset the pressures and drive higher top line growth.

On revenue, we are now targeting underlying growth consistently at 5% or higher. That is above historic levels, and in a moment I will show you the building blocks of how we are making that change. We are also targeting a trading margin in excess of 20% in 2025 and beyond. Clearly, the margin guidance implies a non-linear path over the next three years. That is due to the higher inflation headwinds assumed in 2023, and productivity gains from operations coming more towards the end of the period, particularly around manufacturing.

We do still expect to make year-on-year improvements throughout this period. That is only the first step. For beyond 2025, we will be in a fundamentally changed position. We will have the choice of how much we want to reinvest on more growth opportunities, and how much we allow to flow into further margin expansion.

Prognosis: The right to win across all franchises with more opportunities than challenges

Before I go into the detail of how we do that, I just want to anchor and remind you of our fundamental competitive position. I have no doubt that we have the right to win in all three franchises.

In Orthopaedics, that comes from a full product portfolio and technology. We have highly differentiated implants, particularly on knees and also with Oxinium, as Anne-Françoise mentioned. We have got platform technologies in robotics, with unique indications and assets on our CORI platform.

In Sports, we have a full offering, with leading positions across joint repair, enabling technologies and biologics. There are also clear synergies between Orthopaedics and ENT, for example, in the ASC channel.

And in Wound, which is the heritage of Smith+Nephew, we have got the broadest portfolio across all segments, with biologics, devices, films and dressings. We have got a leading portfolio in negative pressure. We also have strong clinical evidence for our portfolio that sets us apart from the value segment of wound.

12-point plan addressing the remaining challenges

Our 12-point plan that we introduced in July of 2022 is fundamentally changing the way we operate as company to drive higher growth and also to improve our productivity. It is central to how we will address our remaining challenges. We have been held back by supply chain constraints that resulted in product availability issues, and by execution, and that is mainly in Orthopaedics. Some of that is, of course, related to external factors, like semiconductors particularly impacting CORI, but a lot of it actually is in our hands, both on growth side and on profitability.

Slide 22, so the slide that we are on, summarises the initiatives, as we set out back in November. Seven of these levers are primarily growth enablers, from strengthening our commercial foundations, particularly in Orthopaedics, driving each franchise, and accessing the cross-franchise opportunity that I mentioned in ASCs.

The other five are around productivity, across our manufacturing, procurement, and value and cash processes. As we walk through the detail of our growth and margin bridges out to 2025, you will see each of these initiatives contributing.

Mid-term revenue guidance: moving to a consistently higher growth rate

So I will start with revenue, where we are targeting consistent 5%+ underlying growth. This slide puts that into context of our recent history. So 2020 and 2021 were dominated by COVID disruption, but if we look to the four years before that, our average growth rate was a little bit under 3%.

Our mid-term growth guidance therefore represents a move to a consistently higher rate than Smith+Nephew has delivered in the past.

I would point to three building blocks that will help us get there. Firstly, we are fixing Orthopaedics. As rewire our commercial delivery, we will more consistently realise the full potential of our technology than we really have been able to manage up to now.

The second building block is continuing the strength of Sports Medicine and our Wound Management franchise. Sports has been a high performing business for many years now, but the recent performance of Wound is a clear step up from where we were in 2019 and prior. Just maintaining this outperformance from here, therefore contributes to a consistently higher growth rate than the past.

And thirdly, there is a return on our innovation. The company took a strategic decision over several years to increase our spend in R&D. We are now seeing the return on that higher investment coming through in the form of a revitalised portfolio, and a greater growth contribution coming from new products. So I will get into each of these in turn.

Fix to Orthopaedics foundations is underway

On Orthopaedics, the process of fixing the foundations is now well underway. We have said from the beginning that this would take two years to work through in full, but our KPIs are already starting to move the right direction, with early and ongoing improvements in product supply.

Two metrics are shown on the slide but there is a bunch of others that we look at of course internally. The first is simply the value of overdue orders. We had already brought that down in Q3, and I have made mention of that in our release, and there even further reduction of more than 20% during Q4. In total, Orthopaedics overdue orders are now sitting more than 35% below the peak in the first half of the year.

A second metric we look at our availability is LIFR, which is line-item fill rate. And that measures the percentage of customer line orders that are completely filled, so is an indicator of how well we are meeting demand. Now these are bumpy data because we tend to look at this on a biweekly or monthly basis, so there are variations from month to month, and they are impacted by external factors, for example, we had an ice storm come through Memphis in the last part of December and that has significantly impacted the number for that week and the week beyond. But it is important that we are taking a look at this at a high frequency.

But what you can see, it is non-set LIFR for Orthopaedics is on a improving path. It is not a target, which would target a set of what we consider to be in good industry practice, but we have made more than 75% progress towards that level from the trough that we saw in 2021.

So within that, we further prioritised our strategic products, and these are in better condition again. So US LIFR for our Journey 2 knee has made more than 80% progress from trough to target; and both our Polarstem in Hips and EVOS Small in Trauma, have reached their targets already.

There is clearly more to do to make product availability more reliable, but the early KPIs are encouraging. And as supply improvements continue, sales rep time will be freed up, and customer confidence will continue to build, and we believe that we will be better position to pursue new business.

Sports Medicine sustained by high cadence of innovation

Continuing strength of Sports Medicine and Wound are the second building block in stepping up our growth rate. Sports has already been outperforming the market for many years, as I noted, and we expect to continue that.

When I look at the reasons for the outperformance, they are sustainable and fundamental. There is commercial excellence built on a deep understanding of customers; established customer relationships; and a steady stream of innovation across procedures; new segment development in Biologics, where we are just getting started; and of course, successful integration of acquired assets.

Looking forward, we are continuing to deliver a high cadence of new products across our major categories of knee and shoulder repair, including fixation technologies and biologics, and of course, the adjacencies in the arthroscopic tower.

In short, the innovation pipeline continues to be productive and broad, feeding into a commercial channel that executes at a high level. That all gives us confidence that the franchise can keep delivering more of the same financially.

Step up from AWM already in place

Advanced Wound Management's outperformance is more recent. It was in 2021 that this franchise moved to above-market performance, and higher growth than in previous years. That means that just maintaining performance from here, is going to be additive to the Group growth rate compared to history. And again, there are good reasons to expect that the franchise can sustain and even build on the recent growth rate.

Firstly, the step up in performance has been based on sustainable and fundamental drivers. Part of that is commercial execution. The organisation has focused on our differentiated strengths, such as our unique portfolio breadth among our larger peers, and evidence-based selling that differentiates us from the smaller value players.

There is also an attractive portfolio mix. We have a leading position in the high-growth Negative Pressure Wound Therapy segment. We have also driven Bioactives growth structurally higher, by scaling up and successfully integrating our skin substitutes acquisition from 2019.

And there are still opportunities for further growth, again particularly in Negative Pressure. In the traditional segment, we can win more share. Today, we have less than 10% of the $1.7 billion market, with our larger competitor selling much of it through single-source contracts. So we have already been converting accounts as contracts expire, and RENASYS EDGE creates a further opportunity for us to address the broader market.

The single-use opportunity is more about market expansion, and we are ideally placed to access that, with PICO's number one position. The segment is expected to keep growing in the teens in the next five years, and we believe a multiple of today's size is possible, just through increased use in surgical incisions.

R&D investment delivering growth and launch intensity

The third building block of higher growth is innovation. Put simply, we have allocated more capital to R&D than we have in the past, which should drive more innovation, and we are now seeing the returns of that coming through. That step up in investment has been significant. Over the last three years, our R&D spend has been 25% higher, relative to sales than it was in 2017. That included maintaining our commitment both through COVID, and as our sales later recovered.

To give you a sense of how central to our model innovation is, more than 60% of revenue growth in 2022 came from products that we launched in the five years prior. That is also a clear step up, from less than 40% of growth in 2021 coming from new products, and we expect the proportion to remain at least at 50% in 2023.

We can also see the change in the absolute number of launches. We expect 25 product launches in 2023, which is a clear step up from an average of 18 in the period 2017 to 2022. It is not just about numbers. We are bringing key strategic products to the market, across all of our franchises. So for example in 2021 and 2022, we have entered the cementless category with LEGION CONCELOC, and with more cementless launches still to come, we

added a range of applications also to CORI, including a unique Knee Revision indication. We are the only robotic platform to carry that. And launched our next-generation meniscal repair device, FAST-FIX FLEX. See that with [inaudible] my throat. And that will continue in 2023.

So we will further build out CORI's functionality, including the unique Knee Tensioner for soft tissue balancing. We will launch the next-generation of RENASYS as I just mentioned; and AETOS, which will be our entry into next generation shoulder.

Profitability: Past margin pressure from negative leverage and growth investments

So I will now move on to profitability. To think about how we reach our target of a trading margin in excess of 20% in 2025, it is useful to look at what factors have taken us to our current level. The pressures are in three groups.

Firstly, there have been one-time rebasing effects, which are transactional foreign exchange and VBP. Clearly, we do not know how foreign exchange will develop from here, but VBP is a permanent market change.

Secondly, there is the balance of cost inflation, pricing, and leverage. For most of the last three years, we have had continuation of the past price deflation, higher cost inflation, and underlying growth that has not been high enough to offset those factors. During COVID, the decision was taken to maintain the size of the organisation, so the cost base was not adjusted at that time, and we retained excess manufacturing capacity.

And thirdly, there has been dilution from our growth investments, both from a rising R&D spend, as I talked about just now, and initial dilution from M&A since 2020. These are investments that we decided to maintain through COVID, as part of our strategic focus on growth.

Same effects amplified in Orthopaedics margin

When we look by franchise, it is really Orthopaedics that has caused most of the Group margin decline. Repeating the analysis shows that the same factors have been amplified here in Orthopaedics. Of the one-time factors, Orthopaedics is more affected by dollar strength, given the dominance of Memphis manufacturing, and VBP, of course, is obviously specific to Orthopaedics.

On inflation and leverage, Orthopaedics revenue has been slower to recover since COVID. That has meant less of a growth offset for the recent cost inflation, and the price deflation that was a feature of the market up to 2022. This has again left us with excess costs.

Putting that all together, there are a few important observations. First, whether you look at the Group margin or Orthopaedics, only a minority of the pressure over the last three years has come from rebasing effects.

Secondly, most of the rest either reflects slower revenue growth in the past, or is due to our decisions to invest for higher growth in the future. With the higher growth that we are now positioned to deliver, we will be better placed to drive our positive operating leverage, that Anne-Françoise was mentioning.

And thirdly, many of these headwinds should abate going forward, or fall away entirely, particularly after 2023. VBP will fully annualise during the first half of this year, and inflation

is expected to moderate after this year, and we do not intend for our R&D spend to further rebase upwards.

Operating leverage and productivity to drive 20%+ trading margin

So that leads us to the bridge to the 2025 margin target. There will still be a further transactional FX headwind in 2023. But as I said, VBP stops being an incremental headwind as we move through this year. We do not assume that inflation goes away in 2023. As I set out in our guidance, it will be a headwind this year, but after that, we expect it to moderate.

We are going to offset that pressure through productivity and cost actions. That includes the network optimisation initiative that we already announced in the 12 point-plan, and also a detailed set of cost actions mainly focused on OpEx. Together, those will deliver over $200 million in annual savings by 2025.

The final lever is growth. In the past, you have seen our growth leverage often consumed by price deflation and cost inflation. However, our 12-point plan initiative to optimise pricing, put together with cost savings offsetting the cost inflation, will mean that you'll see structurally higher growth falling through in margin leverage, out to 2025. And from 2025 onwards, we will be operating as a fundamentally changed company. And this has been the goal of our strategy and investments in recent years, and we will be able to now, then rather choose how much we reinvest in more growth, and how much we allow to drop through to further margin expansion.

Cost actions to deliver mid-term targets

Clearly, the productivity and cost improvements are an important component of our plans, so I will share a little more detail about what to expect. We have identified a broad set of actions, with cost levers reaching across manufacturing, sales & marketing and G&A. The plan is to deliver at pace, with the full benefit coming in three years.

In COGS and Manufacturing, the rollout of lean will bring simpler processes, more standardisation and reduced scrap. There are also still opportunities from optimising our network where we have overcapacity, particularly in Orthopaedics, and from sourcing materials and components. All of this comes under the productivity initiatives of the 12-point plan.

Sales and Marketing and Markets levers will be the second big block. As I mentioned, the level of revenue growth in the last three years has left us with excess cost, and each commercial team has committed to further new savings to bring our cost base back into balance. And we will look at country mix in each franchise, including exiting business lines when they are unattractive in a particular market.

Trauma in China that we have called out is one of those examples, and there are others in Europe as well, that we have already acted on in 2022. And we have identified further opportunities over the next couple of years.

Finally, there is Corporate and G&A. Again, there are potential savings from procurement including in distribution, and as with the commercial costs, we have also committed to savings in our corporate and administrative costs. So in total, these actions will generate over $200 million of annual cost savings by 2025. Some elements will take time, particularly as you can imagine in manufacturing. So while savings will already benefit us in 2023, they

will also be somewhat back-end loaded with around half of the expected benefits coming in the final year.

Summary

So with that, I am pleased to bring you these updated targets this morning. They represent a realistic outlook, and a commitment to meaningfully improve Smith+Nephew's financial performance. The 12-point plan is starting to deliver, transforming the way we operate and bringing greater rigour and improved execution.

As we continue to work through the two-year life of the plan, we will see the operational and financial benefits continue to accumulate, in growth, profitability and cash generation. The benefit of our multi-year investment in innovation is coming through, and there is much more detail behind that that we would like to share.

I am sure some of you will be at AAOS, and you are welcome to join our booth and tour to see some of our recent launches and our near-term pipeline in Orthopaedics. We will also be holding a Capital Markets event later in the year, where we will focus much more on the developing growth opportunities across our franchises.

We have had great technology in Smith+Nephew for a long time, but this wave of innovation can take us a whole different level. We will be in touch shortly with a date for our Capital Markets Day, and we would be delighted if you can join us.

Now, we can move to your questions.

Q&A

Jack Reynolds-Clark (RBC): Really useful margin guidance bridge for the mid-term guidance. Just wondering if you could give us a bit more information on the timing of those components? And then thinking about 2023 margin, how do you see phasing progressing through the year?

Deepak Nath: Yes. So I can open, then I will turn it over to Anne-Françoise. As I mentioned, we expect to start to see benefits even in 2023. Some of the actions around G&A and sales and marketing you should expect to see the benefit starting in 2023.

Manufacturing, we are actually already underway in terms of optimising our network and starting to balance our capacity with demand. You will see some of it in 2023. But as I mentioned, the full impact of our network optimisation will happen more in the outer years of this plan.

The growth leverage part of margin you should start to see in 2023 as we progress through the year, you will see growth to the levels that we have guided to, and that will start to fall through into March and that will continue to accumulate over the life of the plan. So that is the mix.

The cost actions around G&A, the marketing starting to hit in 2023 and beyond, operating leverage also in 2023 and start to accumulate impact of manufacturing network more back-end loaded. Do you want to cover that, Anne-Françoise?

Anne-Françoise Nesmes: No, we can then move to the 2023 question, Jack, which, clearly, you should expect a similar pattern to what we have seen historically with a stronger second

half, in part due to the fact that we were lapping VBP in the first half as well. And as we work through the savings and the component of the 12-point plan the benefits start delivering more as well towards the back end of the year. So that is what you should expect.

Hassan Al-Wakeel (Barclays): I have two, please. So firstly, if I can ask on mid-term targets, particularly the rationale for the 5% plus organic growth ambition and your increased confidence here. I appreciate you had a stronger 2022 and particularly at the end of the year. But as you show in your chart, this is meaningfully higher than what you have achieved historically. So how do you break up the 5% by segment in geography in terms of the market growth that you see and the expectation for Smith & Nephew and your growth and share gains, or at least stabilisation of share, maybe in Orthopaedics?

And then secondly, thank you for the helpful data on the launch intensity. Do you have this data over a shorter time period, maybe three years instead of the five? Or put another way by business division? That would be really helpful. And is that percentage lower in Orthopaedics versus some of the other businesses? And do you think you need to accelerate the cadence of launches in Orthopaedics?

And then on the 25 new products that you expect this year, I would love a bit more colour in terms of the vision, whether you think it is iterative, or are there any step changes there?

Deepak Nath: Yes, sure. So let me take those in turn. In terms of drivers of growth, what gives us the confidence in terms of growth? We remarked that 2022, particularly in Q4, all franchises contributed to the growth, and we expect that also going forward. We talked about the recent outperformance in Wound, long-term outperformance in Sports will continue to undergird our growth into the future. And we are well-positioned there in terms of our execution, in terms of our products we already have in our portfolio and the pipeline that we have behind that.

In Orthopaedics, which has not contributed to growth in the recent past, that is the change that we are expecting between the recent past and what we navigate to the future. And there, we have never had a line up of factors that we have today.

First, CORI. We are the only true second-gen robotic platform in Orthopaedics. So we are at a kind of an important moment in time in orthopaedics, well, the utilisation of robotics or the interest in robotics has just increased with all players kind of having a robotic offering. So it is in that context that we are launching CORI. And we feel very, very good about how we are positioned relative to competing offerings. As I mentioned, there is a set of features and benefits that are already on CORI that are already differentiated relative to the competition. I talked about revision. We are the only robotic platform to have revision indication.

We are the only robotic platform to offer soft tissue balancing for the knee, which is an important consideration. And then there's a line up of further benefits beyond that. So we believe CORI will be a growth driver. It has not been as big a driver because we have been supply constrained. And here, it is less of the logistics issues that I have flagged previously around Orthopaedics impacting product availability. Here it is truly broader supply chain impacts such as semiconductor availability that is impacting our ability to place as many CORI systems. But as those ameliorate, as we see that ameliorate in 2023 and beyond, we expect CORI to be a driver.

And then in EVOS, we have called. For EVOS, Anne-Françoise mentioned that we now have with EVOS Small a full offering of EVOs to be able to go into RFPs and to contract to really start to compete effectively in the trauma market. It will be a growth driver for us.

And of course, you have got a full portfolio in knee, where we have the only truly kinematic knee on the market. We are a highly differentiated material in Oxinium that we have had for some period of time. But the combination of these factors is what gives me confidence that Orthopaedics will continue to add to growth in our hands, right? So that is the first part of where the growth is going to come from dissected by segments.

The second in terms of launch intensity. There's different ways of measuring R&D vitality, as you know. We have chosen a five-year timeframe. You could look at three. Well, the numbers change. Of course, we say 60% of our growth comes from products launched in the last five years. If you narrow it down to three, it will be a different proportion. But the point we are trying to illustrate is that innovation remains a key driver of growth in our business.

So in terms of what do the numbers say just to highlight again what I said in my remarks, over the period 2017 to 2022, on average, we launched 18 products. Now again, the number of products is one thing. It is about the revenue that each one contributes. And of course, you can parse that all different ways. But 18 was roughly the number of new products we launched from that time. We expect in 2023 to launch 2025. We have a pretty good view as to what is going to happen in 2024. Sufficed it to say, we expect to maintain that intensity into the future. So that intensity of launches and growth coming from new products, whether you define it as five years or three years, we expect innovation to drive growth.

So the third piece of your question, Hassan, around disaggregating further within each of the franchises. I think I got into it in some detail. But what is important again to go back to orthopaedics is we have had some recent innovations come into our back, right, where we have not seen the full impact of that yet commercially. So some of the indications that I mentioned on CORI, relatively new.

Cementless offering, it is first of the other launches to come. It is about a year and some change in terms of it being into our bag. There is, of course, more to come in that regard. So whether you look at implant technology or you look at what is coming down the pike in terms of robotics and robotics enablement in Orthopaedics, we have got a lot coming down the pike.

You asked for how that breaks up by year and by segment. I would refer you to Capital Markets Day that is coming later in the year, where we will detail out what that looks like. If you go to AAOS, you will get a pretty good sense as to at least what the orthopaedics part of that pipeline looks over the near future because of the booth kind of setting year-on-year but able to talk about in near-term pipeline.

So as a newcomer coming into the space, as I take a look at where we have been and really the sheer number of new factors coming in, I get excited as a new person coming in because we have never before, as a company, had that portfolio, particularly in Orthopaedics. And of course, we have been well-positioned in the other segments. So hopefully, that addresses your questions.

Anne-Françoise Nesmes: And if I may just add in terms of the R&D as well allocation, all franchises have the pipeline coming through. So there is no disproportionate element of investment behind one or the other. There is a programme behind all franchisees to drive the growth.

Kyle Rose (Canaccord Genuity): I wanted to build on Hassan's question about the medium term confidence within Orthopaedics. If I look historically, you have had product gaps, particularly when we think about some areas of robotics and then on the cementless knee. When you think about the sustainability of the turnaround and growth within Orthopaedics, how much of that is just a pricing component in getting a better pricing aspect versus taking true mix from a market share perspective?

And then secondarily, in the Advanced Wound Devices side of the business, for several years now, you have called out robust growth within PICO. It would be helpful to frame out the size of that business relative to RENASYS. And then also, I think it was maybe back in 2019, there was some bullishness just around contract wins in the United States with respect to RENASYS. You are obviously continue to see positivity there, at least in the commentary you are talking about today. So how should we think about the US negative pressure wound business moving forward?

Deepak Nath: Thanks for the question, Kyle. So I will take those or at least start with those. The first one around Orthopaedics. There is a role for price, right? Pricing is one of the elements of the 12.5%, particularly strategic pricing, where we have not been as disciplined around price as a company strategic pricing as we could have been. So there is an aspect to that that we are working on.

But that alone is not going to resurrect our fortunes in Orthopaedics. A very important component of that is mix that is going to drive share recapture or share growth in Orthopaedics. So it is an important aspect of how we get back to growth. As you noted, historically, we have had gaps in our portfolio. We did not have a robotic system. We did not have a cementless offering, and the list can go on and on.

And while no company has got it all and we do not have a perfect line up, we have more in our bag than we have ever had before. We have more in our hands to drive growth than we ever had before. And that is a change in terms of our position today relative to the recent past in Orthopaedics. But we have to fix our execution, which really has held us back, which is why the first bucket under the 12-point plan is fix orthopaedics, and that is a deliberate choice for us, right?

Five of the initiatives under the 12-point plan are geared towards in one way or another fixing orthopaedics. And there is multiple components to that. There is a logistics component where we have gotten out of step that has impacted our ability to supply the market to have product available to customers when they need that. We are well on a journey. LIFR is one of the measures that I called out, but there is a whole bunch of other measures that we look at to make sure that we are improving in that regard, right? So there is a lot underneath that to get right.

The second piece is on the factory side, on the supply side, where we have often judged ourselves by schedule attainment but we are now going to layer on mix attainment as well so that we are actually producing two demand. A, we have a robust demand planning process

that is planned down to the right level, and we have got a supply response on us in a factory that is producing to the right level of demand, right? So there is things on the operations side. There is things on the logistics side, as I mentioned.

And then there's a third piece around commercial delivery. Historically, partly because we have had these gaps, we have tended to reward retention versus growth. We have actually recalibrated our incentive schemes, particularly in the United States to start to actually reward growth, and we have rolled that out again this year. So it is not done in isolation. It is done in the context where we have brought about changes to how we rewired that business or how we operate that business. It is not fully done. It is a work in progress.

But the new incentive scheme that we have rolled out is built on that kind of foundation. So coming back to your question around where we need to see it in terms of geography, US is a key part of it, where we need to execute our turnaround in terms of our operations there. But all geographies contribute to it. We talked about being thoughtful in terms of where we invest to compete, right? We have called that, that previously, we have made decisions to exit certain markets or certain business lines, China, trauma is one of them.

We have called out certain markets in Europe. We have exited lines, and we will continue to take a look at that, right? So that we are actually driving not just growth, but actually profitable growth, and that is one of the levers into that. So hopefully, that addresses your first question.

The second question, in terms of PICO versus RENASYS, both are important drivers. Obviously, there is differences of single-use versus traditional negative therapy. The size for us is fairly similar, at least in terms of our book of business. And you have seen the numbers, so Negative Pressure continues to be a driver of growth. What I get excited about is, obviously, we see an opportunity to continue to execute well and to continue to take share as we have been.

But there is also opportunities now for market expansion across these categories, and that is a super exciting place to be in a category like that. Anything to add, Anne-Françoise?

Anne-Françoise Nesmes: No, you have covered the PICO, RENASYS. I would just say because you have referred to the past as well, that portfolio has grown very significantly and double-digit in recent quarters as well.

Deepak Nath: Sorry, I forgot to mention this, Kyle. We have made remarks around supply issues across our business. And that actually has impacted our negative pressure business, particularly around our traditional business. And here, it is about semiconductor availability, among other components, right? And so we have posted good numbers despite that, but that has been a pacing factor for us in that business. And of course, we see continued disruptions through our supply chains. Any one category, there is some improvement from one quarter to the next, and we generally see a slightly better picture for 2023 versus 2022, but generally still very much challenged.

But I did want to highlight that we are operating in a supply-constrained environment in that business. But we have continued to do all this by now. I have lost track of the order of when that went up, so I will leave it to others to approach that.

Seb Jantet (Liberum): Two questions. One around overall what the mid-term revenue guidance. Can you give us a sense of the price assumptions that you baked into that revenue guidance across the board?

And then secondly, still on the revenue guidance. You talked about exiting some low-return markets. Should we think of those as being material in terms of revenues? Or should we think of the gross revenue being higher than the 5%?

Deepak Nath: Yes. I mean, there is a mix of price and volume. Historically, we have seen price deflation in our business to the tune of 1% or 2% historically. We see slightly better than that here. Obviously, here in the immediate past, we have been able to pass through some of our price increases. We have called that out, of course, in previous quarters. And that is quite a contrast to how the med tech business typically operates.

Going forwards, we expect to continue to try and pass through the exceptional price increases that we have seen that honestly is a once in a generation type increases. But in the end, in terms of revenue growth, it is going to have to come, as I said, from mix and volume and continued performance relative from a share standpoint. That is ultimately what is going to drive our growth. So that is the first point to that.

The second point that I would like to call out is, from a mid-term revenue growth perspective, we see again all of the franchises contributing to that growth over the mid-term. Orthopaedics is where we need to kind of bring that level of revenue growth in line with markets. So there is an implied share recapture in the numbers that we have guided to. So the numbers that we have said about 5-6% for the year and 5% plus beyond taking into account all of these factors, is the net of all of the things that you see price, volume, share, cash, all of the factors.

Sezgi Oezner (HSBC): I have two, please. First of all, on CORI. I know you do not like to announce installed base, but I know you closely follow the installed base as well as the KPIs. So some colour on that would be great. And second, on the waterfall chart on Orthopaedics. That was a powerful chart. Thanks for showing that. I would guess it would look different in the other two segments, Sports Medicine and AWM, but how would it look if you were to put it out? And do you see similar risks such as what we have seen in Orthopaedics and VBP in other segments?

And this one is for Françoise. In light of the increase in leverage and continued interest in M&A, how do you see the capital policy should we continue to assume the $250 million to $300 million buyback as well as that line of dividends going forward?

Deepak Nath: Okay. Let me address those. On CORI, the last number that we reported is 500 plus in terms of our installed base. We expect to place more than 300 units in 2023. Most of 2022, we are in a very supply constrained situation, as I mentioned earlier, that really paced our ability to place CORI, and not that they will be completely out of the woods from a supply standpoint in 2023, but we expect to place over 300 in 2023. So hopefully, that gives you a bit of a calibration. That is how we think about it.

What we look at internally is not just placements. It is the quality of those placements, where we are putting them, what kind of utilisation we get from them and are we advancing our

commercial objectives in terms of how we introduce and get CORI adopted into the market. But you asked about placements. So that is kind of how that breaks out.

When we look at a bridge like that into the other franchises, there is not a dramatic effect like VBP, right, in those other franchises. You asked about whether we think VBP will be a factor in those other franchises. It is difficult to predict kind of what the government in China will do versus [inaudible]. So we do not expect VBP in the near term in those categories. But of course, should it come, we will adapt as we have adapted in Orthopaedics. So hopefully, that addresses the second part of your question.

And in terms of the factors, as I mentioned, we have been executing well commercially in those other two franchises. It does not mean we are perfect. It does not mean there are opportunities, not opportunities for acceleration. We have called those out, right, in the 12-point plan. So continued high level of commercial execution, continued improvements of the portfolio will be a key driver of growth.

Innovation is a key part of it. It is less dramatic than in Orthopaedics because we have got CORI, which is a new platform that is coming in, new ways of doing things in the industry. But there is innovation in both in Wound and in Sports. So whether it is innovation across new categories, biologics is a significant investment area for us in Sports, right? That is still early innings in terms of what we can do with REGENETEN in terms of getting that broadly adopted into the market. So we continue to invest in biologics and sports.

In Wound, Negative Pressure is an important investment category for us. And we have got a broad portfolio already, and we are making targeted investments, whether it is in biologics or in skin substitutes in Wound as well. So there are fairly robust pipelines in those areas as well. So as I mentioned, we look forward to giving you a lot more visibility into those categories as well as Capital Markets Day. It is not that we are trying to be coy here. It is just a lot of detail to go into there as well.

So the waterfall looks a bit less dramatic if you were to create that and explore setting it out, right? And I think your second question was for Anne-Françoise.

Anne-Françoise Nesmes: Although I will finish pick up on the dramatic. Actually, if you look at Wound in particular, you will see that the margin, and you can see that in our segment reporting in the annual report, the margin on Wound is actually above 2019. So Wound has delivered. And therefore, I think it is important to understand that the drag on the profitability has been mostly driven by Orthopaedics. Hence, our focus on that. But the other franchises are performing well with Wound, in particular, being back and above 2019 level and Sports being there by revenue only given the pressure on the cost of goods for Sports.

So now the final question was on buyback and whether we are committed to buyback. We remain committed to buybacks and we did $158 million in 2022. And if you recall, when we reframed our capital allocation policy in December 2021, we also signposted to our target leverage of 2 to 2.5. We are currently at the bottom of the range given the challenging macro environment, the effects of COVID on our profit recovery and also the working capital build-up that you have seen in 2022. So as a result, we paused the buyback, and we will continue to keep this under review in 2023.

David Adlington (JP Morgan): Three questions, please. So firstly, just on your mid-term revenue guide changing from 4 to 6 to more than 5. Just wondered explicitly how your pricing assumptions have changed from 15 months ago. Very explicitly how they changed. As we headwind to maybe a slight tailwind.

Secondly, just in terms of the inventory uplift. Just wondered how that is going to flow through to gross margins through this year and how we should be thinking about gross margin developing through the year?

And then thirdly, just in terms of technical one, on the FX margin headwind, 100 basis points. That was 75 basis points back in Q3. I would expect that to get better rather than worse. Just wondered what happened on the FX side.

Deepak Nath: Do you want to take those, Anne-Françoise?

Anne-Françoise Nesmes: So on the FX, as you know, we fix 12 months. So there is always a quarter that rolls forward. So that is the main change in terms of the assumption.

In terms of the inventory uplift, the impact on gross margin is the impact of inflation. Well, there is actually two impact but it is inflation. So if you see that our inventory is now higher cost effectively means your standard cost and your cost of goods as you sell the stock is higher cost. So that puts that what we talk about. And that is why inflation phase through a P&L at a different rate than what you see may happen in the external environment because you have built inventory at a higher cost and that will flow through the P&L over time.

I think it also reflects that as we look to reduce inventory, a lot of the efforts is around better supply and demand alignment, where it is also better discipline in our factories, and it is about better managing the capacity. That is why the network optimisation, the productivity, Lean in operations is super important to mitigate that and to offset the pressure that we would see otherwise in the cost of goods line.

And then on pricing. So, as we said earlier, price in the long term is not the driver of the revenue growth. The driver of the revenue growth is about better commercial execution and the new products, the innovation. In 2023, in the short term, there is a price lever as we continue to look for the offset of inflation. It is not the lever in the mid-term outlook. However, it is important to say, we would not rest on our laurels. Part of the 12-point plan has a pricing component but it is about strategic pricing. How do we launch new products, how do we make sure our contracts compliances improved, etc. But the lever of growth in the mid-term is really about gaining market share, launching our products and continuing to capitalise on the growth drivers we have set in place in the last few years.

David Adlington: Perfect. Maybe just come back on the gross margin point. I mean, in terms of the direction of travel for gross margin in 2023, how should we be thinking about that impact in terms of the inventory uplift?

Anne-Françoise Nesmes: So you will continue to see pressure on the gross margin, which is why we say in particular the network optimisation, the op savings flow in 2024 and 2025 in particular. So that is the element of the plan with the savings deliver later in the period.

Veronika Dubajova (Citi): I have three, please. One, can we just start with the 5-6% organic sales growth guidance for 2023. And I would love to hear from you what that

assumes for procedure volumes or utilisation. And Deepak, if you can comment on how the year has started related to that? That would be super helpful.

Then my second question is on the mid-term margin target. Deepak, you had made some comments about how the improvements would be back-end loaded. Would just love for you to be a bit more specific. If we do assume you are at 17.5% in 2023, how should we think about the remaining 250 basis points being split between 2024 and 2025?

And maybe just related to that for Anne-Françoise. What is the assumption that you are making about some of the inflationary headwinds that we have seen on the cost of goods sold that is embedded into that 20%? I am thinking sourcing like freight, logistics costs and raw materials.

Deepak Nath: Sure. Hi, Veronika. So I will take the first two around the 5-6% kind of mid-term revenue. As I indicated, it is spread across the franchises in terms of what the drivers of that growth are. We have talked about the price and the volume components of it. And within Orthopaedics, we do expect procedures to return to normal. Honestly, in 2022, we were less able to capitalise on the return to normalcy in terms of procedural volumes for the reasons we have talked about in the past. But we do not see the procedure volume or the market procedure volume being the rate limiting step for us. Or said differently, we expect that more or less procedures are back to normal, and we will be operating within that world.

It does not mean that hospital systems around the world are challenged for labour shortages or other things, right? And we do not yet know whether there will be another spike in COVID and how that will impact procedures. But our assumption for 5-6% is built on essentially procedure volumes in the world being as they are today and us being able to better participate in that than we have in the recent past. So that is the anchor to the 5-6%. But as I mentioned, it is not just about Orthopaedics. It is going to fuel the growth that is continued outperformance in Wound and Sports. So we do not need to belabour at that point.

The second, in terms of margin. I would not take a straight line from 17.5% to 20% plus, Veronika. So nor will it be a step change where it is 17.5% and go flat and then all of a sudden magic happens in 2025. So I would not do that, either. So I am not saying a lot when I say that, although, perhaps my second statement also has information contained in that. So I would expect, as I mentioned, I will go back to kind of where we started the Q&A, which is there are elements of our margin expansion that will come in chunk sequentially from one quarter to the next, revenue growth driving margin expansion, you should expect.

Of course, there is a seasonality to our business, right, particularly in Orthopaedics. So you need to kind of factor that out, right, because typically, our second half of the year is higher margin than the first half of the year. But against that backdrop, you should expect the operating leverage element of margin expansion to happen sequentially.

In terms of cost, it is a bit dependent on how quickly execute on the G&A actions and whether it is the market exits or the sales and marketing kind of adjustments that we need to make. So that is a little bit in our hands and symptoms how quickly we execute. But that is more of a near to medium term lever that fuel that. Some of it, as I said, in 2023. And you will see, of course, the annualised impact of that in 2024. So that is more near term.

In terms of the manufacturing, as Anne-Françoise has just answered, the network optimisation. Look, we are sitting on excess capacity in Orthopaedics, right? And so we need to go through steps in order to put that into balance from a network standpoint. And that will take time to fully deliver into a P&L. So that you should expect more in the 2025 timeframe to fully benefit. But having said that, as I mentioned, under the umbrella of rewiring orthopaedics as we look to improve logistics, improve how we do demand planning, how we do supply planning and how we schedule things in the factory, you should expect some benefit also in the 2023 and 2024 timeframe.

So most of those benefits will come in the form of improved LIFR, and therefore, improved availability into the market. And in terms of product ability into the market, that will get reflected in the operating leverage part of it, particularly in Orthopaedics, right? Over time, as we talk about inventory is a topic for us, particularly in Orthopaedics, we started off not in a great place in 2021. We further added to it for understandable factors in 2022, but we have got to take steps as we rewire the business to better utilise capital in Orthopaedics, right? And that is one of the key elements of our work 12-point plan under the bucket of improved commercial execution.

So that will pay dividends ultimately in lower inventory or lower days of inventory, which is a key metric. We will come back and report on how we are doing in that in due time.

Anne-Françoise Nesmes: And the final question was on inflation. So clearly, we had to make assumptions. We do not have a crystal ball, as you heard me say some at times. We assume a continued inflation in 2023 in part of the discussion we are just having earlier that it continues to flow from the cost we have seen in 2022. So higher inflation in 2023 and in 2024, 2025 assumes and beyond that the inflation more direct.

What do I mean by that? I am not going to give a precise number. But clearly, that would be still higher than what we had experienced in the pre-COVID world, but moderate inflation is our assumption as we put out the guidance.

Deepak Nath: Okay. So I think we will leave it at that. So thank you very much for your interest and attention, and look forward to seeing you back here next quarter. So thank you.

[END OF TRANSCRIPT]