Smith+Nephew Meet the Management 2023

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Meet the Management 2023

Deepak Nath

Chief Executive Officer, Smith+Nephew

Welcome

Good afternoon and good morning for those of you who are joining us by webcast in the US. I am Deepak Nath. I am the Chief Executive Officer of Smith+Nephew and I would like to welcome you to our 2023 Meet the Management session. Thank you for taking the time to be with us today.

Before we start, I will read out the customary safe harbour statement. Certain statements in this presentation are forward-looking and these statements are based on management's current expectations and are subject to uncertainty and changes in circumstances. Actual results may differ materially from those included in these statements due to a variety of factors. More information about these factors are contained in the company's filings with the SEC.

Agenda

Now with that out of the way here is today's agenda. As you know, Smith+Nephew has been on a transformation journey and today is an opportunity to go deeper into some aspects of that. In the next hour you will hear from me and the President of R&D and ENT, Vasant Padmanabhan. We will be updating you on two important elements of our strategy, the 12-Point Plan and our innovation agenda, including the acquisition of CartiHeal that we announced last week. After a short break we will move to a series of small group breakout sessions. For those of you who are in person you should have received group assignments and your schedule for the breakouts when you arrived this afternoon.

Over the course of the day each group will have a Q&A session with me, Anne-Françoise and Vasant. Then in meetings with leaders from each of our business units to get into the detail of how we will win in each part of Smith+Nephew. To reassure those of you who are unable to be here in person, we will not be giving new financial disclosures or outlooks in the breakouts. I am sure you will find it to be an informative day today and come away with a clear picture of how we are moving Smith+Nephew forward towards our goals.

Leading Positions in Attractive Markets

To begin I would like to remind you of what Smith+Nephew is. We are a major global player in all of our key markets of Sports Medicine, Orthopaedics and Advanced Wound Management. The portfolio is a typical model in medical devices, and it brings a range of benefits. It gives a level of scale which covers costs and enables us to engage with customers where it makes sense in a cost business way. The portfolio also gives us stability. There are natural product cycles in each area of med tech as many of you know and diversification smooths out our outlook across those cycles. It supports capital allocation. You have seen us investing in M&A when there are opportunities in particular categories in a way that would be financially challenging if these were standalone businesses.

The Right to Win Across All Business Units

Orthopaedics

At the same time operating in our new global business unit structure means each area has the focus, the accountability and the ability to move at pace. It comes with dedicated leadership and clear lines of responsibility. Importantly we have the right to win in all of our business units. In Orthopaedics we have a long history of good performance prior to Covid. There have been challenges as you well know in the last few years with major product gaps and commercial delivery, but we are increasingly in a better place. The gaps have largely been closed and we are making good progress on fixing our execution. Beyond that the right to win comes from our portfolio and our technology. On the portfolio we now have a full product range across hips and knees with unique and differentiated implant technology. Then there is our robotic enabling technology platform, CORI, where we are still expanding the planned functionality and which you will hear more about from Vasant in a moment.

Sports Medicine and ENT

In Sports Medicine we also have a complete offering with joint repair, the arthroscopic tower and close customer service. We have leadership positions in the various segments including being number one in enabling technologies and in biologics. We have scalable synergies with other areas such as through CORI and cross-selling, especially in the ambulatory surgical centres.

Advanced Wound Management

In Wound we have the broadest portfolio offering solutions across all key wound types, bringing together foams, devices, biologics and increasingly digital offerings. We have a leading negative pressure platform with huge potential for market expansion. We have a catalogue of strong evidence across our categories showing proven clinical outcomes and economic value. This sets us apart from the low-cost segment of the market. You will hear from the Presidents later on how they leverage these strengths together with consistent execution and new products to win in each of these areas.

Our 2025 Mid-Term Targets

Putting that fundamental positioning together with the growth investments we have made and the actions we are taking to drive further performance leads us to our mid-term targets which remain unchanged. We are targeting underlying revenue growth consistently at 5% or higher and that is in all markets and significantly above where Smith+Nephew has been in the past. We are also targeting a trading margin of at least 20% in 2025 and beyond. That increased growth and profitability represents an important step to a fundamentally stronger Smith+Nephew.

Meet the Management 2023

12-Point Plan driving financial performance

The focus of today's plenary presentation will be on two aspects of how we are driving that. First, I will cover the 12-Point Plan and specifically how our progress is translating into financial outcomes. You will then hear from Vasant to talk about the role of innovation in driving consistently higher revenue growth at Smith+Nephew. That will include our innovation strategy and some of the key platforms that we expect to drive performance, not only in the near-term but in the years beyond. We will finish with a summary of how we expect that to play out in the segments that we report to you.

12-Point Plan

Deepak Nath

Chief Executive Officer, Smith+Nephew

12-Point Plan Addressing Remaining Challenges

I will first start with the 12-Point Plan with what as a company we are fundamentally capable of. We can unlock a lot of value by addressing our remaining challenges. We launched the plan in mid-2022 as a broad two-year programme designed to do exactly that as well as maintaining performance in areas where we are already strong. The 12 initiatives are summarised on the slide. Five are around regaining our previous momentum in Orthopaedics across all of Recon, Robotics and of course Trauma. The language we use of Fixing Orthopaedics is purposefully direct. It conveys the depth of change we are making and our commitment to putting the business on a better path.

Another five initiatives are to improve productivity across our manufacturing, procurement and value and cash processes. They are an important part of improving returns. The design of the plan also recognises the importance of nurturing businesses that are already doing well. The final two initiatives to accelerate Sports Medicine and Advanced Wound Management reflect that.

One way to track our progress is through milestone completion. Slide eight shows where we are today for each group of initiatives and for the 12-Point Plan as a whole. As when we last updated you on this in July, there are different levels of progress in the different areas and that is to be expected. There will always be variation in a programme of this scale. Some actions will take longer by nature, such as manufacturing optimisation and portfolio rationalisation. You have heard me talk about that. Some have just moved very quickly through their project milestones like our order-to-cash initiative.

12-Point Plan Initiatives Continuing to Advance

Overall progress

However, when you take a step back, we are making progress right across the board and the Plan as a whole is well on track. Two-thirds of the milestones are delivered now compared to just short of half when we last provided an update to you.

Importantly, we are accumulating evidence that the project and the KPI delivery is starting to turn into financial outcomes. Many of the initiatives should lead to a wide range of commercial and financial benefits but this slide spells out the most direct connections with metrics you will be able to see in our financial reporting. The first outcome of the plan should be higher growth, better product availability driving share with key ortho platforms, pricing and continuing to drive Wound and Sports are all components of our revenue story and therefore the operating leverage that comes with it.

Alongside that, manufacturing and procurement initiatives should drive better efficiency on both fixed and variable cost. Taken together, the benefits of growth, leverage and cost reductions are key elements that underpin our mid-term revenue and trading margin goals.

Those are the financial items that we guide on but return on capital and cash flow are important too. They are also being driven by the 12-Point Plan. For example, instrument sets are around half of our capex so improving set utilisation as a part of Rewiring Orthopaedics is an important lever for overall fixed asset intensity. On working capital we have initiatives on both inventory reduction and receivables through our order-to-cash initiative.

Driving Financial Outcomes with the 12-Point Plan

Looking at where we are with these outcomes improvement in growth is already visible, both for Orthopaedics and for the company as a whole. On profitability we have done some heavy lifting this year already. The reported trading margin should follow and as we have indicated in our guidance, we expect a significant year-on-year uplift in H2. Finally, on capital intensity inventory management is taking time to come through but we are still making progress on the other elements. I will double-click on each of these in the next few slides starting with some of the initiatives where you can already see the financial improvements.

12-Point Plan Elements Delivering Financial Outcomes

Growth KPIs translating into revenue acceleration

I am particularly pleased with our progress on Orthopaedics growth. When we initiated the 12-Point Plan in mid-2022 the franchise was in a difficult place. Product availability was below industry levels, and we were not getting capital to customers in an effective way. On top of that we were just starting to work through the headwind of VBP in China. As part of addressing product availability we introduced a new planning process in 2022. We brought in a higher cadence of interactions between commercial and manufacturing and improved forecasting and planning down to the SKU level, aimed at better matching supply and demand in both overall volume and importantly in mix attainment.

A KPI we have shared externally is non-set LIFR or line item fill rate which is the percentage of customer order lines that have been filled. It is an indicator of how well we are meeting demand. That has continued to progress well and has now closed about 95% of the gap between the trough level and our target which is being in line with industry standards. There is still more work to do. Implant availability is not yet consistent across all products. For example, with tight supply of JOURNEY II we still need to increase instrument shipments which is particularly important for US Knees. Even so the broad progress is increasingly showing up in our reported numbers.

When we look at our Recon growth versus our peers slicing that into the four subcategories of Knees and Hips inside the US and outside the US, all were behind the market at the start of the 12-Point Plan. That has improved to three of the four being at or above market in Q3 of 2023. The same drivers of product availability and set delivery are showing up clearly in Trauma & Extremities where winning market share with our EVOS plating system is an initiative in its own right.

The availability of Trauma consumables has been good all year and in Q2 we started to see a ramp in our KPI of set deployments. That is being shown here as EVOS Large on the slide. Again, that is translating into better underlying revenue growth which improved first to solid growth in Q2 and then to more than 10% in Q3. Within that growth was higher again in core

Trauma in the US where the EVOS rollout is more advanced. That platform has a good runway of growth ahead and we will come back to that later in the presentation.

Set utilisation and order-to-cash delivering better fixed asset turns and DSOs

There is further to go in improving capital utilisation and cash generation, but even so, some elements of our progress are already visible externally. One area is around instrument sets which has been a multifaceted programme. We have worked on set health which is now improving and on plan. We have improved last-mile logistics to get sets to customers more efficiently with shorter turnaround times between procedures. We have redistributed slow-turning and non-turning sets to customers and sites with larger opportunity. We have better governance around new set deployments where we have gone from capital being essentially free to commercial teams to asset utilisation now being part of their incentives.

All of that work is showing in our 12-Point Plan KPI of improving Recon set turns. This is a bumpy metric by nature but still we have achieved an overall 25% increase in set turns from the start of 2022. That is starting to appear in the metrics that you can see. Instruments are part of the reported PP&E, and you can see in H1 financials that turns of reported PP&E have also started to rise.

On cash, overall cash conversion remains slow in the first half but there was still a bright spot with our order-to-cash initiative where monthly days of sales outstanding is a 12-Point Plan KPI. DSOs had been rising, then they turned at the end of 2022 and have been coming down again, now standing at about 12% below the peak. Again that was visible on our H1 report with receivables growing below sales.

Ongoing Actions to Optimise Manufacturing and Improve Inventory

As I said at the beginning, margin expansion and inventory improvement are not yet in the reported numbers, but we are confident that they are coming. The underlying work is progressing, and we are seeing the Plan KPIs that should be leading indicators starting to inflect. For example, our manufacturing optimisation initiative is an important driver of the cost of goods sold element of the 12-Point Plan. The majority of the P&L benefit is expected to come in 2025, both from the actual work taking time and also from the delayed benefit as lower cost product first passes through our inventory.

We do want evidence of progress sooner than that of course and an important metric for us is conversion cost which is total direct and indirect cost to convert raw materials into finished goods as a percentage of sales. Encouragingly our KPI stabilised in the first half of 2023 and is now beginning to fall.

We are also making good underlying progress on inventory. Our chronic issues has been around Orthopaedics finished goods with the unusual combination of high and rising inventory and product availability challenges at the same time. Both of those challenges are helped by better sales and operations planning and as we go through planning cycles that iterate our process our forecasting improves and the SKU mix of what we manufacture comes more into line. Also as overall product availability improves both the sales force and customers become more confident that they will get what they order and the bias towards overordering falls away.

The effect is that we have now stopped the bleeding. Days of Orthopaedics finished goods have levelled off and have been largely flat throughout 2023. Overall inventory days did increase in H1 of 2023 but that came from other temporary sources which were Wound inventory, particularly negative pressure, to support our growth plans, and an increase in Orthopaedic sets which were not yet deployed and so were still held in inventory. We expect to grow into Wound inventory and although still up year-to-date the trend had turned by the end of Q3. Instrument sets have also levelled off and we expect that to fall as Recon set deployments pick up, as I described earlier.

Rebuilding Operations Capabilities and Performance

Our starting point

Given how important our operations improvement is to overall performance it is worth going into a further level of detail here. Our main challenge was a misalignment between commercial and operations. Our sales inventory and operations planning or SIOP was very flawed particularly given the demands of Orthopaedics. This led to overordering by commercial organisations and the creation of excess capacity by our operations organisation. Coupling that with an ineffective inventory management process we created a challenge for both cash and service management.

Building market back

We rolled out an improved and redesigned SIOP process in 2023, as I referenced earlier, supported by a leading-edge advance planning solution. Additionally we upskilled leadership in multiple levels across planning, manufacturing and distribution. This has allowed us to dramatically improve service both on new sets and in replenishment, while driving an improvement in inventory days across Orthopaedics.

Positioned for success

Having a better aligned supply and demand process has also enabled us to critically assess our manufacturing capacity. Over the last two years we have reduced Orthopaedics related capex without creating any issues on quality. We have also reduced hiring and taken a reduction in contingent work force in our largest site in Memphis. From a network perspective we have already exited the Lyon site as part of the Extremities acquisition, and we have more recently announced closures of our sites in Tuttlingen and Beijing. This is a heavy lift and while we have made a lot of progress there is a lot more to do.

12-Point Plan Addressing Remaining Challenges

As I said, it will be 2025 before we can show you the full benefit of the manufacturing initiatives in our P&L but with the improving KPIs and key steps taken on network we have increasing line of sight that the improvement is indeed coming. What you are seeing develop across multiple metrics and areas of the company reflects the broad change that the 12-Point Plan has brought about. It is a vehicle for both operational and cultural change. The discipline we have driven through execution of the Plan is driving new behaviours and creating a sustainable culture marked by customer-centricity, agility and speed, execution rigour and consistently high performing teams.

Vasant Padmanabhan

We will now move to the second part of the presentation with Vasant Padmanabhan, President of R&D. For those of you who are yet to meet him he has 25 years of global R&D

leadership, previously at Thoratec, which is now part of Abbot, and before that Medtronic. Vasant has both an engineering and a commercial background which he brings to his expanded role. Earlier this year I asked him to take on added responsibilities as President of ENT on top of his role as Head of R&D. In this session though we will be focusing on innovation so I will hand you over now to Vasant to talk about this pillar of our growth strategy.

Innovation Agenda

Vasant Padmanabhan

President Research & Development, Smith+Nephew

Innovation As a Pillar of S+N's Growth Strategy

Innovation Investments Meaningfully Driving Group Growth Today

Good afternoon, everybody and good morning to those of you calling in from the United States. I am delighted to have the opportunity to talk about our innovation agenda. It is the lifeblood of our company. I am excited to talk about how it relates to the 12-Point Plan as well as the revenue for growth going forward. I would like to start with one of the key takeaways regarding innovation. Over the last few years and especially over the last 3-4 years we have increased our R&D investments. More importantly our investments in R&D and innovation have already contributed to the revenue growth for a few years. You may be familiar with some of our key growth platforms, CORI our digital surgery robotics platform; our EVOS plates and screws platform in our Trauma business; our REGENETEN biologics platform in our Sports Medicine business. These platforms are not only contributing to growth today, but they also have multiyear runways still ahead of them.

On this page as you can see in 2023, we have guided to 6-7% revenue growth and of that 6-7% revenue growth 50% is expected to come from new product launches that we have launched in the last five years. Then on top of that another 10% comes from external innovation products that we have acquired through our M&A activities. You put it together and 60% of our revenue growth will come from our innovation pipeline as a whole. This is actually quite a healthy contribution to revenue growth. In 2023 we will be launching 25 new products that will continue to drive revenue growth in the mid-term.

Innovation Also a Key Pillar of Mid-Term Growth Acceleration

Looking beyond 2023, as Deepak has discussed in his comments, we have guided to a 5% underlying revenue growth, above our historic average and above the market growth for the markets that we participate in. In addition to the 25 new products we will launch this year combined with the 50 products that we have launched already in the last three years, I believe we will continue to grow this company and the revenue in the mid-term.

Significant Unmet Procedural and Healthcare System Needs Remain Across Our Market Segments

Why are we confident of the strength continuing in the mid-term? There are three reasons that I am going to step through each of them one-by-one. First of all there are significant unmet needs that still remain in the market segments we serve. Secondly, Smith+Nephew has a history of meeting unmet needs with disruptive and transformative innovation. Finally, the innovation environment and technological trends are tailwinds and very well aligned to our innovation approach.

Let us talk about unmet needs. First and very importantly we still have large unmet needs in the markets we serve. These needs can be for the patient, either in terms of patient satisfaction or in terms of clinical outcomes or reduction in complications, or it could be needs from the healthcare system. Either due to increasing costs for existing treatments or for costs due to unaddressed problems. Let me just take a few examples. If you look at knee replacement surgery, 80% of knee patients still say their knee feels artificial. If you look at shoulder repair surgery, almost 50% of patients experience re-tears after rotator cuff surgery. One out of 16 children undergoing total tonsillectomy have post-procedure haemorrhages that require them to go back to the emergency room.

Then finally from a healthcare system perspective the treatment for surgical site infections costs the US healthcare system alone more than $3 billion per year. My message is that if we can address these unmet needs with innovative solutions there are big clinical and financial opportunities for Smith+Nephew.

S+N's Long History of Innovation Disrupting Established Procedure Approaches

The second reason why I believe innovation will drive growth in the mid-term is our track record of doing exactly that. Over decades we have repeatedly brought technologies to market that have disrupted traditional approaches and changed standard of care. Let me take a couple of examples to illustrate that. Let us take the example of Sports Medicine, the business that Scott leads and is going to be discussing with us later in the breakout sessions. Smith+Nephew has been at the forefront of our move to minimally invasive arthroscopic procedures. First we came out with DYONICS and the arthroscopic mechanical resection capability. Then a few years later we came out with arthroscopic meniscal repair where we still hold a number one position in that market and arthroscopic ACL reconstruction. Then we came out with COBLATION technology. Each of these was a clear departure from established surgical methods at that time. Each of these has clear patient benefits. Each of these has become a standard of care and each of these has clinical evidence to support the utility of that procedure.

Another quick example. We launched PICO in 2012 which is a simpler device for negative pressure therapy. Ten years later PICO has been utilised in 2.3 million surgical site infections and is doing great in the marketplace and has disrupted how negative pressure therapy is delivered. A final example, and one of my favourite ones, is knee replacement. We launched JOURNEY II in 2013 and that knee still represents a new generation. Whether you take motion, shape or position it is a knee that is closest to the natural knee and closer than any other conventional design that is out there. It actually addresses that artificial feel that some patients refer to.

OXINIUM, which is a material that we use in our knees, remains an industry standard with leading performance and remains one of the best materials from a wear profile perspective with extensive data from registries collected over many, many, many years.

Innovation Environment

Key trends to access the unmet needs

The final reason why I believe innovation will continue to drive revenue growth is the innovation environment and the technological trends that are playing a key role in our goal of continuing to drive innovation. Many of these will be familiar to you. Robotics and digital enable a degree of accuracy and personalisation of procedures that has not been possible in the past. I will get into more details of how robotics and AI play into our innovation agenda. Equally important, biologics and the biologics technology is developing rapidly and enables different types of treatments including fully restoring tissue and function. Procedural innovation, and Brad is going to talk a lot about procedural innovation in the Orthopaedics breakout session, with less invasive and tissue-sparing methods can improve the post-op experience. Again going to patient satisfaction unmet need including faster recovery times. Finally the ever-increasing economic pressures on healthcare systems from aging populations and national budget pressures are making health economic benefits even more compelling.

Internal Innovation Focused on Growth Segments and Aligned With Technology Trends

With all of these tailwinds let us talk a little bit about how we are driving innovation successfully. First, we have increased our investments in R&D. We usually talk about the ratio of R&D spend to sales and if you look at it that way our R&D as a percentage of sales has risen by over 100 bps since 2017. It is even clearer when you look at the absolute spend. That is $300 million of R&D investment in 2022 which is a 35% increase from where we were in 2017 and really has enabled us with a different level and depth of projects in our organisation.

If you look at the projects by our business units our spend is fairly similar to our business mix and if you drill further down into the categories, you will see that our investment is concentrated in high-growth segments and categories with all of these key segments growing well and ahead of overall market. All of these key segments align with the key technological trends that I just talked about. Underpinning all of this is our ongoing investment in clinical evidence that demonstrates the clinical value as well as the economic value of our innovation.

Accessing External Innovation Through Tuck-In M&A

Innovative devices in existing areas

Complementary to our organic innovation is external innovation and we have also stepped up our investment in external innovation. Before 2019 we had a relatively low level of tuck-in M&A, averaging about $90 million per year. More recently we have targeted our investments to support the same strategic areas, Sports Medicine and Wound being the largest areas of investment, and within Orthopaedics the key transactions have been in Robotics and Extremities. This slide here shows a few examples of the few transactions that we have had in the recent past and how they create value for Smith+Nephew.

Let us take one of my favourite examples, Rotation Medical. Rotation Medical is a very clear example of our approach. We acquired REGENETEN which is a novel regenerative technology for rotator cuff repair, which is a procedure we were already supporting in our Sports portfolio. We were able to sell REGENETEN, this high potential device, through our existing sales force. We have launched it in the United States as well as in several markets outside of the United States. We have invested significantly in clinical evidence and new indications. Six years later we are still finding new legs of value with REGENETEN, and I am very excited that we are looking to replicate that same model with the CartiHeal acquisition that we recently announced last week.

Adding new capabilities

Switching to Orthopaedics and enabling technologies we have also added new capabilities that we did not build upon. The two acquisitions on this page are Blue Belt and Atracsys. These brought to us our first-generation robotic system called NAVIO and the camera that goes with that product. When we combine these acquisitions with our significant internal investments these have become the foundational technologies for our second-generation system CORI that I am going to talk about in a little bit more in detail.

Scale in high growth categories with differentiated platforms

We have been scaling some other high-growth categories as well, such as skin substitutes in Wound after the acquisition of Osiris in 2019, and the Extremity Orthopaedics acquisition from Integra as well. That acquisition immediately gave us more scale in Extremities and a key development in AETOS which I am going to talk about as well as we go forward.

Leveraging Fundamental Strengths to Create Value

Core technical competencies

Let me try to bring it all together in what I call the secret sauce as to what are our strengths that will take all of this and create value for the company? Firstly we have several core competencies that help us with multiple applications across products and categories. These core competencies exist in our engineers and scientists that are very long tenured within the company. I will give you an example. The Chief Technology Officer of Blue Belt joined us several years ago and still continues to drive innovation with CORI. Similarly the Chief Executive Officer and chief technology leader for an acquisition we made called Leaf joined us and he is still with the company driving our enabling technologies portfolio. These highly tenured scientists and engineers are able to work across the enterprise. Materials and Robotics are familiar to you.

OXINIUM has been used on multiple applications in Orthopaedics and as I said we are the first company to bring a second-generation robotics system. Image processing, computer vision, we do not talk about it that often, but it is becoming more and more of a key enabling technology especially when combined with AI. Then finally biologics where we already have great capabilities through our acquisition from Osiris and Rotation Medical, but we are continuing to extend it further with CartiHeal.

Clinical and economic evidence

The second fundamental strength is we firmly believe in the importance of clinical evidence. We have completed multiple studies and meta-analyses to build our clinical evidence portfolio. Just to give you a couple of examples in skin substitutes where there is increased payer scrutiny of clinical value the clinical evidence of GRAFIX stands out. In fact in one particular study in DFUs we found, and we showed that the GRAFIX membrane was the only dermal substitute determined to have high quality of evidence with no serious risk of bias. We ran a head-to-head study against our competitor, and we found that GRAFIX closed 63% of chronic wounds compared to 18% of a leading competitive product.

Finally, one of my favourites, REGENETEN, we added this new technology to an existing procedure, and we built the evidence to support the reimbursement of the added component. Again we have shown the highest standard of evidence with blinded RCT against standard of care. In one randomised study where we focused on full thickness tears, we compared the re-tear rates in two arms. One arm got the REGENETEN product, the other arm got the standard of care and there was an 86% reduction in re-tear rate between the REGENETEN arm and the control arm. Very, very excited about that.

INTERTAN is also something where we have done a lot of clinical work. The design features with second generation screw suggested different actions to other nails and we have proved that as well. We demonstrated this with studies that found 66% lower risk of revision, 71% lower risk of implant failure, 52% lower risk of hip and thigh pain compared to other intramedullary nails.

Development with proximity to customers

Finally proximity to customers. We work extensively with design surgeons, customer labs and academic partners to bring projects aligned with the market needs. When we put all of this together, we are very proud of our results. We may not always have been first-to-market with a key technology but when we leverage our strengths and our investments, we are very proud of the differentiated, industry-leading portfolio that we bring to our patients and surgeons.

Broad Portfolio of Both Incremental Innovation and Transformative Programmes

Now I am going to switch and show you a little bit about the portfolio. This is a summary of the portfolio. There is a lot on here and it does not represent our entire portfolio but just a few highlights. These launches have come from different business units and subsegments with both consumables and enabling technologies. You can go from hips and knees. You can see CORI. You can see our LEGION CONCELOC launch. In our Trauma & Extremities, you can see our Digital TSF. You can see our AETOS system, of course our EVOS platform.

Same thing in Sports Medicine. You can see innovation coming through on the consumables side both incremental innovation and transformative innovation, which you can see with our INTELLIO tower that Scott will be covering as well. Then on the Wound side you can see the LEAF innovation as well as our innovation in biologics.

These products represent both incremental innovation. We believe cadence of innovation is really important. They also represent transformative innovations that either significantly shift standard of care with a potential for share gain or allow us to enter new categories entirely.

Driving New Value From Existing Assets

Vasant Padmanabhan

President Research & Development, Smith+Nephew

I am now going to highlight some key projects in three groups. I am first going to talk about projects, programmes or platforms that are driving revenue growth in 2023 and 2024. Those are CORI, REGENETEN and EVOS. Next I am going to talk about projects that we are just getting ready to launch which will be AETOS, Agili-C from CartiHeal and RENASYS EDGE.

Then I am going to talk about what is going to come beyond 2025, platforms that we are investing in now that will realise in our portfolio beyond 2025.

CORI

Disruptive approach enabling new differentiation and growth

I will start with CORI. The development of CORI in my mind showcases our capabilities and strengths that I just described. When we started to create a vision for CORI, we noted that competitive offerings were large, saw-based, fixed arm systems essentially replicating how the procedure was already being done manually. However, based on our assessment of the user needs and in collaboration with our surgeon customers we decided to take a different approach and we made a bold decision. We did not follow our peers. We instead designed CORI to make robotics scalable, a small footprint, portable device that is easy to set up and suited to any OR. We decided to make CORI flexible with a modular design that is able to work with a range of hardware and software options so that we can evolve, be agile and help surgeons with their preferences and the needs of different procedures. We initially designed CORI to be image-free for the patient that could not go and get imaging. We did not require imaging at that time. However, you will also notice that in the flexible design of CORI we are able to also adapt the image-free technology to image-based technology as well.

These decisions are playing out in our growth strategy today. CORI is a leading brand in multiple geographies including EMEA and Brad will talk more about this as well. We are seeing adoption both in ambulatory surgery centres as well as in academic medical centres where Smith+Nephew has historically been underrepresented. Our flexible design has helped us to create capabilities and unique value propositions. I will give you a couple of examples. We are the first and only FDA-approved knee revision system without the need for imaging. If you already have a knee implanted in you it is very difficult to do a CT scan prior to a revision procedure. We were also the first company to come up with the digital tensioner which is a unique system that measures soft tissue tension before making any more cuts.

With respect to continued adoption of CORI we have learned that even though a quarter of our US knees are now placed with robotics, some surgeons would still like to use a saw to cut bone. We brought that additional capability forward as an option with our recently launched saw solutions, which is our approach for efficient bone cuts without the need for additional incisions or traditional pins. A similar concept with pre-op planning that I just mentioned about. While not needed due to our image-free design we recognise that some surgeons have had imaging established as part of the workflow and would like that as an option. We can now support that with CORI's flexible design, and we expect to bring that capability forward for both knees and then hip after that.

Finally, in addition to knees and hips I believe CORI is uniquely positioned to support shoulder procedures that Brad and Craig will talk about as well. CORI is particularly suitable given limited access and the nature of the shoulder joint. I am very excited about bringing CORI to the shoulder space as well.

REGENETEN

Continuing multiyear Sports Medicine growth driver

The second platform that I have talked about and want to talk about a little bit more is REGENETEN. It is our collagen-based bioinductive implant used for rotator cuff repair in

Sports Medicine and it has already had a transformative impact on our patients and rotator cuff disease. As you all know, rotator cuff disease is progressive in nature, meaning small tears tend to grow in size and severity until they require surgery. There are currently several techniques to treat rotator cuff tears with physical repair but there continues to be a significant risk of re-tear, as much as 50% as I discussed earlier in the unmet needs section. With REGENETEN once again we have taken a different innovative approach. We have an implant that actually disrupts the progression of the disease biologically and supports the body's natural healing response. It has proven clinical value in 85% of tear types.

I mentioned earlier that REGENETEN is a good example of our tuck-in strategy working well. It is also a great example of our investments in clinical evidence. I would like to spend a little bit more time in what we have accomplished in this area. Without REGENETEN data shows that up two in five repairs re-tear and there is risk of poor outcomes and revision surgeries. We recently reported the interim analysis of an RCT that I alluded to earlier where we showed a dramatic and statistically significant reduction in re-tear rates. The 86% reduction that I talked about. The re-tear rate at 12 months in the group of patients that got REGENETEN was 3.5%. The re-tear rate in the control arm that did not get REGENETEN but got treated with standard of care had a re-tear rate of 25% and that is the 86% statistically significant reduction that I mentioned before. Other studies have also shown rapid post-operative recovery, reduced pain scores and enhanced quality of life.

REGENETEN has been a great growth drive since 2018 but the good news is we really only scratched the surface of the opportunity, as Scott and Christie are going to talk to you in the breakout session. From a penetration perspective there are approximately 1.2 million addressable rotator cuff procedures globally growing 5% CAGR out to 2030. Today REGENETEN is still used only in a single-digit percentage. We are also looking to expand the addressable market with new indications. The mechanism by which REGENETEN works for tendon repair is not specific to the shoulder and we believe it has broad applications. We are working on evidence to support a series of further indications including Achilles repair and reconstruction and hip.

EVOS

Complete trauma plating system aligned with customer needs

I would like to move to EVOS which is our plates and screws platform in Trauma. EVOS is a brand you have heard about for some time, and you may be wondering why we are talking about it today. It has actually been a long commitment for us and investment for us on our EVOS platform. We have recently delivered a solution that can compete effectively in the largest segment of Trauma. Customers typically buy plates and screws as a complete solution rather than just components so while our first launch was EVOS Mini a few years ago, we have built on that platform in stages. With the launch of EVOS Large in 2022 we can now address all key needs with a single state-of-the-art system.

EVOS is a differentiated platform. The plates themselves have good anatomic fit with a low-profile plate and screw design to minimise irritation, which is a differentiator for us. A common design across the components simplifies procedures and improves workflow. Additional targeting tools help accurate replacement of the large plates against the bone and out of the surgeon's view. With the system complete the main levers looking ahead are operational and commercial related. Talk to Craig about it and he will be talking to you about it as well. Huge addressable market, $4.7 billion globally and going from a single-digit market share we are really excited about our Trauma business and the role of EVOS in the Trauma business.

These are three existing platforms. Now I am going to move on to three launches that we are just getting ready for.

The Next Wave of Innovation

Vasant Padmanabhan

President Research & Development, Smith+Nephew

AETOS Shoulder System

Entering high growth category of Total Shoulder

The first of these is AETOS, our second-generation shoulder system. We acquired this technology as part of the Integra deal in early 2021 and it enables us to effectively compete in one of the largest growing segments. What is unique about AETOS? It has been designed keeping in mind the needs of both patients and surgeons. For patients the unique design of our stem minimises bone resorption and it maintains patient anatomy. The cruciform shape and coating maximise stability and improve fixation and they are designed to restore range of motion for patients and help minimise arthritic shoulder pain. With interchangeable anatomic and reverse options and given backwards compatibility with our previous generation shoulder called TITAN, surgeons can now make flexible choices intraoperatively responding to the patient's need and condition as necessary. In addition any combination of the procedure can be done by just 2-3 instrument trays which greatly simplifies the procedure for healthcare professionals, improves capital efficiency and streamlines workflow in the operating room.

We recently launched the short stem in the United States in June, and we are well placed to commercialise AETOS. We are already calling on our joint replacement commercial organisation, our Sports Medicine organisation and Trauma specialists. These are the groups that perform two-thirds of the shoulder replacements, and we are also expanding the channel for the remaining group of shoulder specialists.

We are also continuing to develop the platform further. We are working on a stemless variant and also on compatibility with CORI like I talked about which will further increase the optionality and attractiveness of our offering in this area. As I mentioned earlier and to reiterate, CORI's handheld design and precision milling capability make it uniquely suited for robotically enabled shoulder procedures. Work on AETOS robotics is underway.

We are still early in our launch of this product, and we are confident that it will contribute to evolving the standard of care once again for shoulder surgery. This is another strong example of our innovation strategy where we bring together external and innovation to meet unmet needs.

RENASYS EDGE

Next generation of traditional Negative Pressure Wound Therapy

RENASYS EDGE is our next generation traditional negative pressure wound therapy. As a reminder, the RENASYS family is one of our two negative pressure platforms. We have a traditional platform and the single-use platform. I already talked about PICO which is the market leader in the smaller but rapidly expanding segment. The traditional negative pressure segment is complementary to the single-use segment, and it has a market size of $1.7 billion. Rohit and Cathy will talk about it. This is where RENASYS EDGE sits. This segment consists of the larger pumps that often sit in the hospital and are reused for multiple patients. Dressings are what we sell, rather than the whole unit. This segments is an established one but there are still significant unmet needs. The fixed component, the pump has a significant service requirement with costly and complex logistics and management. In fact our survey data showed that 78% of clinicians reported that traditional negative pressure management interferes with other tasks. Also both practitioners and patients find existing systems complex to use, requiring training.

We designed RENASYS EDGE to meet these unmet patient and customer needs. Its user-friendly interface is easier to learn and troubleshoot for both professionals and patients. For hospitals the self-testing functionality removes the need for routine annual servicing and preventative maintenance and the modular design means a streamlined process for minor repairs. For patients RENASYS EDGE gives the convenience of a small portable device with a hidden canister that keeps exudate out of the general view. We have already been gaining share with our current generation and with the upgrade with RENASYS EDGE we will continue that current momentum.

Agili-C

Strengthening leadership in knee repair and biologics with agreement to acquire cartilage treatment

Finally I am delighted to discuss the latest addition to our innovation portfolio. As you know, we announced the agreement to acquire CartiHeal and an existing biologics platform called Agili-C. What is Agili-C? It is a porous, biocompatible and resorbable scaffold which promotes natural regeneration of cartilage and restoration of its underlying bone. FDA granted Agili-C breakthrough designation in 2020 and pre-market approval in March 2022. Agili-C is indicated to treat a wide patient population including those with lesions and knees with mild-to-moderate osteoarthritis, which is a previously unaddressed condition, as well as about 700,000 patients that currently receive treatment for cartilage repair annually in the United States.

When Agili-C is inserted into the lesion the implant gets infiltrated by osteoblasts and stem cells from the surrounding areas leading to formation of new bone within the scaffold. The top surface promotes migration and growth of chondrocytes from the adjacent cartilage leading to cartilage regeneration at the top of the implant. In short, it provides an optimal environment for both bone and cartilage regeneration.

Superior outcomes for patients, a better option for surgeons

I would like to go into a few more details regarding Agili-C's superior outcomes and advantages for our surgeons. Data from a two-year randomised controlled trial published in 2021 showed superiority over current surgical standard of care, which is microfracture and debridement. The primary endpoint of this study was a change in a composite outcome score which included subscales of pain, other symptoms, quality of life, activities of daily living and sports. From a similar baseline patients treated with Agili-C had statistically significant improvement in their overall score. What was exciting was that these improvements were across patient groups with better outcomes regardless of the degree of osteoarthritis, age or lesion size. As the study continues at the four-year follow-up it shows continued good improvement of the outcome scores and low surgical reintervention.

There are advantages to surgeons as well. Agili-C's indication is for grade-3 or above lesions and includes mild-to-moderate osteoarthritis which is currently an unaddressed condition. It is efficient and easy to use, a one-step, off-the-shelf application with no refrigeration or preparation required. Overall it is a great fit for the Smith+Nephew portfolio and our innovation approach. It is an area we know with existing surgeon relationships. It is a disruptive approach. It is a departure from what is already being done and it is backed by outstanding clinical evidence.

Platforms Beyond 2025

Vasant Padmanabhan

President Research & Development, Smith+Nephew

Next Wave

Enabling technology across our business

Finally I am going to wrap with the wave of innovation that is coming forward. I would like to now talk about something that we are working on beyond 2025 and in particular two technology platforms with application across our businesses. I will start with enabling technologies and close with biologics. We think of enabling technologies as a fundamental component of our product portfolio and central to this is the transformative power of AI. When it comes to incorporating AI into our products, we see AI as a means to addressing unmet needs and solving real world problems. Rather than thinking of AI as a hammer looking for nails. We are very strategic in our application of AI, as I said.

Our approach to AI and enabling technologies is anchored in two broad areas. Personalisation and automation. Across the entire spectrum of Smith+Nephew's offerings we are integrating AI to deliver personalised solutions more efficiently. Whether it is in surgery, wound care or sports medicine, our goal is to tailor our products and services to meet the unique needs of each patient, ensuring that their care is individualised and personalised.

We are also leveraging automation to help streamline care delivery. Automation is not only something that enhances product efficiency but also reduces cognitive load and resource demands on our healthcare partners. For example, in the area of preoperative planning for knee, hip or shoulder it is very important that we create the model of the patient's anatomy whether it is a knee or hip accurately and include bony structures that are quite easy to identify from images, as well as soft tissue like cartilage that are very important but harder to identify from images. This is where AI comes in. We use AI for image segmentation so that we can create an accurate 3D model of the patient's anatomy. Having a better model allows us to create a better plan, a plan that is personalised to the patient and exactly what the surgeon wants.

We are also using AI models to help predict surgical complications and suggest appropriate mitigation strategies from our Wound portfolio. For example, AI models can predict a patient's risk of surgical site complications and in an evidence-based manner we can guide the use of targeted interventions like our negative pressure wound therapy or our dressing therapy to improve patient outcomes.

We are also focused on leveraging the power of sensors. For example, LEAF sensor technology is currently aimed at preventing pressure injuries in hospitalised patients. It has broader potential applications such as informing orthopaedic surgical plans. For example, we can analyse a patient's baseline activity data using the same LEAF sensor and that can enable personalised implant selection and surgical approaches. This sensor-based personalisation can extend beyond the operating room, and we can collect continuous postoperative monitoring with sensors like LEAF that can provide data on patient recovery. We can feed this data back into our AI models. By integrating patient data across the continuum of care our AI models get increasingly better.

Looking ahead our vision with AI is to create what I call an intelligent portfolio where our digitally enabled products contribute to a unified knowledge ecosystem which in turn leads to increased personalised and automated care solutions. Finally I am very excited about how we are using enabling technologies to transform arthroscopy. Using video-based navigation and computer vision technologies we believe we can help sports medicine surgeries in the same way we use enabled technologies in arthroplasty. I liken an AI-enabled arthroscopy to Google Maps for sports medicine if you will. It will enable surgeons with decision making and guidance for tasks like tunnel placement in ACL, which is a great example.

Biologics to address complex unmet needs

In addition to enabling technologies we believe that our biologics portfolio is well positioned to meet the large unmet needs. As you all know, biologics are biomaterials and tissue-engineered implants that allow us to restore, repair damaged tissue as well as organs. When we think of our biologic strategy, we categorise it into three broad areas: bioactives, tissue-engineered implants and cell therapies. When we look at bioactives, which are basically substances that facilitate advanced healing, we have SANTYL and GRAFIX in our own portfolio. In that area our innovation approach is to develop the next generation of bioactives that can be even more effective.

When we look at tissue-engineered implants like REGENETEN our approach is to combine externally available platforms with our core competencies like we have with REGENETEN and with the Agili-C bioinductive scaffold. In fact some of you may already know this but our human body is made up of 90% type-1 collagen, the same substance that is used in REGENETEN. We believe that the REGENETEN platform can be used to treat and restore other tissues and organs as well. When it comes to cell therapies, we are fairly early in our innovation approach and looking to see how we want to make progress there.

That concludes my comments on innovation and our innovation agenda. I hope you could see the link to our revenue growth strategy, and I will hand it back to Deepak.

Growth Outlook and Summary

Deepak Nath

Chief Executive Officer, Smith+Nephew

Innovation Investments Meaningfully Driving Group Growth Today

Thank you, Vasant. As he indicated, I hope you are able to see why it is that, with the depth and breadth to which Vasant has gone, we are so excited about our pipeline. I will just take a couple of minutes now to summarise how this connects to our growth outlook, both based on the 12-Point Plan and of course our portfolio of innovation. Just to recapitulate as Vasant set out innovation is already a central pillar of our growth in 2023. As he indicated in the 6-7% underlying growth for this year that we have guided to around half of that comes from products we have launched in the last five years with an additional 10% from those we have acquired. With better execution in the 12-Point Plan and clearly defined areas of focus and accountability of each business unit, it will enable us to get the value from this new technology as we continue to drive the contribution also of our legacy products.

Mid-Term Growth Uplift Across Multiple Segments

Moving to higher mid-term growth vs history

Our targets also imply that we expect our mid-term growth to remain higher than in the past. This slide gives an indication of where we expect that growth to come from. We have highlighted five areas of the portfolio. Those are Trauma & Extremities, Other Recon, which is CORI, ENT, Sports Medicine excluding the headwind as we move through VBP, and of course Advanced Wound Devices. The key projects and products Vasant presented are important parts of how that is delivered. We have not talked about ENT today but in the near-term the business should be driven by continued penetration of tympanostomies with Tula building over time. An important observation to take away from this is that we expect our acceleration versus the past to be broad-based. Our plans do not rely on any single product or segment. Taken as a whole around 50% of group revenue is in these areas with an outlook for higher growth.

Maintaining or recovering performance

The rest of the portfolio is still important. Maintaining the improvement in Wound over the last few years is a major building block of our mid-term growth story. We have exciting longer-term projects in next gen biologic mechanisms and dressings that will become new components of that growth story that will be further out. As I touched on at the beginning, recapturing our past momentum in hips and knees is another important goal through the mechanism of the 12-Point Plan.

What you should take away from today is that we are seeing the return on that higher investment coming through in the form of a revitalised portfolio and a greater contribution from new products. We have a series of assets, both internally and externally sourced, that can keep driving growth in the coming years. All of that is backed by a stronger culture and improved commercial delivery in our business units. The breakouts for the rest of the day will give an opportunity to talk about those plans in each business unit in more detail. Our Presidents and other business leaders will go through how we will win in each area and the key products and innovations that fuel that.

S&N Management

Orthopaedics

However before I go into Q&A, I would like you to introduce the people that you will meet in the breakout sessions. First is in Orthopaedics. It is helmed by Brad Cannon. Brad is a 30-year industry veteran in medtech. He was a key architect of our success in Sports. It did not come for free. He has built a great culture in Sports and balanced scorecard-based selling. The kind of momentum you see in growth is in large part due to his contribution in building up that organisation, which Scott is now taking over. What we are looking for is for Brad to bring that magic into Orthopaedics and he has been doing that over the last two years.

Along with Brad in the breakout session you will see Paul Connolly. Paul has been with us for about three? Two years he says. I want to make sure. He has been with us for two years. Paul brings a breadth of experience in ops. He is a consummate ops leader. He spent a great deal of time at J&J, in the orthopaedics world, plus other parts of J&J. He also spent time at Goodyear where cents matter in a commodity business like that, so it brings him great ops mindset and great familiarity with orthopaedics into his role. He has brought a great deal of leadership into that area, and he is recruiting in talent from within this industry to address some of the important challenges that we face in orthopaedics.

You have got Craig Gaffin who leads our Trauma and Extremities business. He comes to us from Stryker and previous to that he worked at Amgen. Craig has an infectious passion for this business. It comes through not only to his team and colleagues in Memphis but those of us who are on the 12-Point Plan calls every two weeks. Great passion, great excitement. I think you will see that come through in the Orthopaedics business.

You will have Andy Russell. Andy is the CFO for the Orthopaedics business. Andy spent a career and then some at KPMG where he led their Healthcare M&A area in the UK. Andy also stepped in to be the leader of EMEA after the leader of EMEA departed our business. Not only is he a finance leader but he actually has been wearing a commercial leadership hat as well. He will be an important part of the team that you will meet and interact with in the Orthopaedics session.

Sports Medicine

Next up is Sports Medicine. As I mentioned, it is helmed by Scott Schaffner. Scott is a 30-year medtech veteran. I know he does not look it but 30-year medtech. He spent a significant amount of time with us starting in 2014. He came through the ArthroCare acquisition and prior to that he spent time at Abbott, Abbott Spine, and at Zimmer. He is a consummate medtech commercial leader. We promoted him to be on the ExCo earlier this year taking the baton over from Brad, who has been a mentor to him. Scott has an MBA also from Stanford.

In the Sports team is also Christie Van Geffen who has spent a little over 20 years with us as a leader in marketing. She has spent time in a variety of marketing roles within the Sports business. This is what she does day-in and day-out and where she has spent the bulk of her career, initially in Europe. She has been leading the Global Marketing organisation in Sports. You see the depth of leadership in each of our businesses. Leaders who are not only great leaders in their own right but have spent significant time in these domains, which is an important of how we are bringing this business, how we are transforming the culture within our company.

Advanced Wound Management

Third up is our Wound business. We have got Rohit Kashyap who has been with us for a little over three months. Rohit comes to us from MIMEDX where he spent a couple of years. He knows the biologics portfolio well, but he spent the majority of his career at Acelity where he was the key architect for Acelity's negative pressure business, not only from an M&A and corporate development standpoint but actually leading that business. Culminating in his role as the Chief Commercial Officer there but also prior to that leading the US business, leading the EMEA business. He is a wound leader through and through. There are not too many of them out in the industry, but he has been one of the absolute leaders in this space. We are fortunate to have him as part of the Wound team.

We are also fortunate to have Cathy Dalene who has been with us for three years. She comes to us from Molnlycke where she led the wound business for Molnlycke which has, as you know, a strong presence in foams and dressings. Prior to that she spent a significant time at J&J actually in the orthopaedics business, so she led the company's offerings all across Nordics prior to her going to Molnlycke. She leads Global Marketing for Wound. We have got, as you can see, also in our Wound business folks who are drawn from that business, who are passionate about that business and who bring that sense of depth of expertise and broader leadership experience.

This is the team that you will interact with today and I am sure you will have robust conversations there. Before we break, we are literally just on time, and we have got a 15-minute break lined up but if you have a couple of questions here, I will take those. You will have an opportunity to of course interact with Anne-Françoise who has been very quiet, uncharacteristically so. However, she will not be during the Q&A session. Along with Vasant and myself here in this forum. Then of course you will have the opportunity to break out.

Q&A

Hassan Al-Wakeel (Barclays): Hi, thank you for the presentation. Thank you for taking my questions. I have got three please. Firstly, you talk about winning market share in Orthopaedics. The gap has improved in Q3. There is still a gap over the prior year and absolute R&D still lags your larger peers. To what extent do you think that you can maintain this momentum into 2024 as the market is perhaps less buoyant than in 2023? Secondly, maybe one for Vasant, of the 25 new products in the pipeline in the short-term can you help us understand the mix of incremental versus transformational launches? You talked about the importance of cadence of launches, so I wonder how you think you benchmark on this point versus your peers. Then finally on M&A could you talk about your thoughts here in the pipeline and where you see the most attractive bolt-ons by segment and how you are thinking in terms of process and hurdles?

Deepak Nath: Yes, sure. First off, I feel good about our prospects and hopefully today we have given some substance to why I feel good about it. You have heard me talk about it on analyst calls and so forth. This does not just come free, there are reasons for it and those reasons come from the breadth of our pipeline to fuel our growth. It is not just the pipeline where we have lagged historically. It is our commercial execution in Orthopaedics has not been up to snuff. Hopefully what you have seen in the 12-Point Plan, and we have spelled out, commercial execution and improvement in that is one of the key levers. We are bringing an intentionality and focus in improving key areas of commercial execution. It spans multiple areas. It is incentives. It is our commercial process. It is our talent. It is the discipline of how we go after this. Now with the portfolio gaps that we have had that have been largely closed and an innovation pipeline behind it and enthusiasm in the market around robotics we are well positioned to do this. However, it is not just any one thing. These things have to come together.

As I have also indicated in the past we are not counting on, great term Hassan, buoyant market. We are not counting on tailwind in the market to make our numbers. In fact our guidance was based on basically normalised market levels. The tailwind such as it exists for as long as it exists would be upside for us. As you know, in 2022 there was a good market. We were not able to capitalise on growth in the market. We are better able to do that in 2023. As you note, there is still a gap that remains although we have narrowed the gap. We are looking to further narrow that and start to put points on the board in 2024. Brad will detail that out and you can go into that with him in terms of how he is bringing that to life.

I will answer the third question and I will turn it over to Vasant since you directed the pipeline question to him. In terms of M&A you saw us do the CartiHeal. It was a great tuck-in acquisition within the Sports world. I think you can sese the synergy, you can see the complementarity. We have also said M&A is a part of our growth strategy. We have got a process where we evaluate opportunities right across the businesses. What is important for us is to make sure we are nurturing all of our businesses. Orthopaedics is in fix it mode and there is a lot that is going for Orthopaedics. We recognise our position there. At the same time we are delivering in Sports, and we actually are delivering in Wound. The idea is to make sure that we are giving those businesses what they need to be successful. We are operating from a position of leadership in Sports. It is about building on that leadership, and I think you can see with our entry into the cartilage space how we are doing that. In Wound we have got the broadest portfolio in the industry. We see opportunities there too of all different sizes and when the time is right, and we can deliver value we will be appropriately aggressive. That is not the right word, but we are monitoring opportunities right across the spaces. With that I will turn it over to Vasant.

Vasant Padmanabhan: I will take your question. Of the 25 new products there are several that are incremental innovations and several that are disruptive. This term of incremental versus disruptive is a subjective one. One person’s incremental innovation could be another person’s transformative, but I would say roughly about 70% of our products I would like to be incremental innovation and 30% disruptive. This year I am actually quite excited by the number of disruptive products. AETOS, I think, is a disruptive shoulder product for us that we recently launched. The CORI Digital Tensioner is a disruptive product because it allows surgeons to do ligament balancing. Arthroplasty is becoming more and more about ligament balancing and less about cutting bone. I think the CORI Tensioner is a transformative product. Then the RENASYS EDGE, just to take an example from the Wound portfolio as well, is a product that comes after many years in the traditional negative pressure. That is transforming the market for us. Benchmark, I think when we compare, we work with Gartner to get competitive data. We feel that we are known for more innovative products, more creative products and more transformative products from what I can tell from the benchmarks.

Lisa Clive (Bernstein): Hi, just a question about generating clinical data. That is obviously much more important for medtech than it was 10-15 years ago. Vasant, in your presentation you mentioned clinical efficacy. There is often analysis around health economics, head-to-head comparisons. Then with REGENETEN you mentioned incremental reimbursement. Is your R&D budget today enough to do what you need to do in all these areas? Are there any of those areas where you think you can do more? It was interesting that REGENETEN you actually mentioned that you have got incremental reimbursement. That is quite unusual in the segments that you operate in.

Vasant Padmanabhan: I will take that. You are not going to meet too many R&D leaders that say they have enough money.

Deepak Nath: We have just gone through a budget process. That was not what he said to me.

Vasant Padmanabhan: Having said that, I do feel that we have a laser-focused process of prioritising our investments and prioritising it in a way that we put it where we get the highest return. Am I confident that the money that we have, the $300 million, we are spending it in the right places? Absolutely. In some ways having some kind of constraint on your spend allows you to make those trade-offs. It requires you to make those trade-offs, understand customer needs better and the market better. These are the trade-offs that we are making. We are making more investments in REGENETEN, as an example, and we will make more investments in Agili-C as we go forward.

Deepak Nath: It does force that prioritisation on you, Lisa. I think that is a great question. The composition of R&D we provided a breakdown by businesses and Vasant also talked about where we are invested. In Orthopaedics shifting towards robotics and some of the areas that we talked about. Along with that shift also come where you invest. Now, in Sports it is increasingly about evidence generation, not only just clinical benefit but also health economic benefit. As you know, it is easy to say but we have got to develop that capability. Part of why we felt good about Agili-C is we have been down this road with REGENETEN. We did not really talk about Tula, but we are actually down the road and Vasant in particular is sweating this right now with Tula. There is some accumulated experience, some of it is positive, some of it is not so positive, that we apply to how we bring to bear. However, as you well know and back to Hassan's question around scale of R&D, there is something to be said for dollars in R&D. Even in us the $100 million extra that we have spent from 2017 forward, we have I think put it to good use and it matters because you can be more in depth in your programmes. That said, not all of the innovation is responsive to dollars. There is a level of inspiration that you need to draw, a level of focus and prioritisation. I think there while we have not always been first and many of you have pointed that out in your interactions with me, we acknowledge that but hopefully what you will be able to take away today is underneath that headline we have actually brought some really good innovation to bear. We have done that consistently in space after space. What we have not had necessarily in being first all the time everywhere we have made up for in the level of innovation where we have chosen to compete. I think you will see us continuing to do that as we move forward. Thank you.

[END OF TRANSCRIPT]