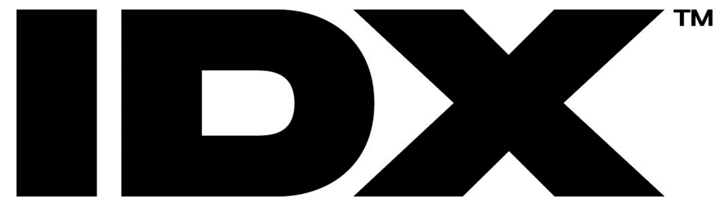

Smith+Nephew Q2 and Half Year 2024 Results

Thursday, 1st August 2024

Overview

Deepak Nath

CEO, Smith+Nephew

Welcome

Good morning, and welcome to the Smith+Nephew second quarter and half year results presentation. I am Deepak Nath. I am the Chief Executive Officer. And joining me is Chief Financial Officer, John Rogers.

Summary

I am pleased to report a solid set of numbers, that represents a good step towards our full year guidance, and further progress in our strategy to transform Smith+Nephew.

On revenue, we delivered the acceleration we expected, with 5.6% growth in the quarter. The Sports Medicine business continued its good momentum across categories and regions. In Advanced Wound Management, we returned to growth with a better quarter in both Bioactives and in AWC.

In Orthopaedics, all of Trauma & Extremities, robotics, and ex-US Recon have kept performing well, and we have made good progress with addressing our performance in US Recon.

On profitability, 140 basis points of expansion is around the upper end of the guidance range we gave back in May. Operating leverage and our productivity measures in the 12 Point Plan more than offset external pressures and have positioned us well to deliver our full year target.

It is very encouraging to see double-digit profit growth, and also importantly, translating into cash, with 60% trading cash conversion, which is well ahead of where we were last year.

My assessment when we began this turnaround was that Smith+Nephew was a portfolio of fundamentally good businesses, with excellent technology, and the right to win in every part of the company. The diagnosis of why we were not at our full potential, was that we had challenges around execution and culture, and we developed the 12-Point Plan to address those remaining issues.

The progress we have made since 2022 is evidence that we had the right diagnosis, and we are now firmly on the path to the better financial outcomes that we have been aiming for.

The first half of 2024 shows that we are delivering good results from the large majority of the portfolio, making up around 85% of sales. That is a transformation from where we were at the outset, and particularly in Orthopaedics, where we have turned around the majority of the business.

Trauma and OUS Recon are now consistently delivering growth well above history, and CORI has successfully developed from being a new challenger in the market to being recognised as a leading system, with strong adoption across a range of settings, from ambulatory surgical care centres to academic medical centres. And it is how we have done all of this that makes me convinced that US Recon is poised to do the same.

Firstly, the specific ways we have driven the rest of Orthopaedics are exactly what we are doing in the US:

- By driving product availability;
- Capital efficiency; and
- Innovation delivery through the various initiatives of the 12-Point Plan.

Secondly, we have confirmed the strength of our technology by delivering outperformance with the same products in other markets.

And thirdly, I can see the discipline and focus that has come from the 12-Point Plan and our shift to a verticalised, more accountable set of business units, and those benefits apply equally to every part of our portfolio.

Q2 2024 Revenue

I will return to some of these themes later, and John will talk more about cash, returns, and accountability in his presentation. For now, I will take you through the detail of the quarter.

Q2 2024 summary revenue performance

Revenue in the quarter was $1.4 billion, with 5.6% underlying growth and 4.6% reported, with a 100 basis points headwind from foreign exchange. Growth also included a tailwind from one more trading day than in the prior year. All three business units accelerated sequentially, and I will come to the detail in a moment.

Geographically, the US grew 3.6%, and Other Established Markets grew 6.9%. Emerging Markets grew at 9.5%, with strong double-digit growth across the Middle East, India and Latin America.

Orthopaedics

T&E and OUS Recon driving growth, operational and commercial improvements in US recon

For the Business Unit performance, I will start with Orthopaedics, which grew at 5.8% underlying. Global Knees and Hips grew by 2.1% and 4%, respectively. The geographic trends of recent quarters continued, with higher growth in the OUS segment, particularly in Europe. Almost half of our recon business is in those international markets, where we are demonstrating what our portfolio can deliver with good execution, and even as we begin to lap stronger comps.

US recon was still behind for the quarter as a whole, but there were encouraging signs of progress. Our operational improvements under the 12-Point Plan are now at goal, with both implant supply and now set availability at target levels, and that is for both Hips and Knees as well.

We are also seeing indicators of commercial effectiveness moving favourably, particularly around staff retention. Other Recon grew 17.8%, and reflects another good quarter of robotics placements, particularly in the US. We have also continued to develop our offering, with the launch in June of the CORIOGRAPH pre-operative planning and modelling. The launch makes CORI the only robotic system to offer a choice of image-free and image-based planning and is another element in our approach of supporting a range of surgeon preferences on a single platform.

Trauma and Extremities grew 11.8%, providing half of the overall Orthopaedics growth. The EVOS plating system continues to be a key driver within core trauma, and the growth

contribution of the AETOS Shoulder is steadily increasing as we deploy more capital and convert new surgeons.

Sports Medicine & ENT

Continued strong business unit performance through China headwind

Sports Medicine & ENT grew 7.6% in the quarter. Within that, Joint Repair growth was 6%, including the expected headwind from Volume Based Procurement in China. While the implementation began only in May, we saw ordering patterns affected for the whole of the second quarter.

Excluding China, Joint Repair growth would have been 11.8%, with a very strong quarter across our other major markets. By product, the Knee repair portfolio and REGENETEN were again key contributors, and we are well advanced with the post-acquisition integration of Cartiheal AGILI-C, that is one of the next generation growth drivers.

Early cohorts of sales reps have completed their training, and we are starting to build out patient and surgeon access.

Arthroscopic Enabling Technologies grew 8.7%. Higher growth in the quarter came from the expected recovery in video capital sales, and continued good performance from our radio frequency platform, both from core COBLATION, and from WEREWOLF FASTSEAL.

ENT revenue growth of 11.6% was driven by our core tonsil and adenoid business. While underlying demand continues to grow well, I would remind you that the next quarter will have a very strong prior year comparator, with the effect that ENT growth in Q3 is likely to be around flat.

Advanced Wound Management

AWC and Bioactives drive growth improvement

Looking now at Advanced Wound Management, which returned to growth at plus 3.3% with recovery, as I said earlier, in both AWC and in Bioactives.

In AWC, 3% growth reflected continued strong performance in foams and anti-infectives, and improvement in films. In Bioactives, growth came from a strong sequential recovery in SANTYL, along with a more normalised prior year comparator. As we have previously indicated, the recent quarter-to-quarter growth volatility or variability is quite normal for SANTYL, and we expect further improvement from the rest of the year.

Offsetting SANTYL was a slower second quarter for our lead skin substitute product, GRAFIX, ahead of the launch of a new version called GRAFIX Plus.

Finally, Advanced Wound Devices revenue grew by 8%, led by our single-use Negative Pressure platform, PICO. RENASYS EDGE is also an important part of our growth plans and received a CE Mark in the quarter. We plan to launch in Europe in the second half of the year, adding to the US rollout that is already underway.

With that, now I hand it over to John.

H1 2024 Financials

John Rogers

CFO, Smith+Nephew

Introduction

Thank you, Deepak. It is a pleasure to be presenting to you all in person this morning. Today's announcement actually marks four months into my time as CFO, and as you would expect, I have spent a lot of my time digging into the detail of the company, the 12-Point Plan and financials. That is very much an ongoing exercise, but it has already identified opportunities to go further with some of the initiatives.

So as I take you through the first half financials, I would like to share some of my thinking on our opportunities and financial priorities in the coming years.

H1 revenue by business unit

I will start with the P&L. Revenue for the half was $2.8 billion, up 4.3% on an underlying basis compared to half one 2023. Reported revenue was up 3.4%, including a foreign exchange headwind of 90 basis points.

As you can see, growth was higher in our surgical businesses, with AWM growth reflecting the slow first quarter.

H1 trading income statement

140 basis points of trading margin expansion

Looking at the trading P&L, gross profit was $1.98 billion, with a gross margin of 70.1%, which is 30 basis points of expansion over the prior year. We also delivered positive leverage across our operating expenses with good control of our cost base. That resulted in 140 basis points of trading margin expansion to 16.7%, around the upper end of our guidance range, and trading profit growth of 12.8% to $471 million.

H1 2023 to H1 2024 trading margin bridge

Revenue leverage fully offsetting cost inflation; cost savings dropping through to trading margin

Slide 12 shows a more detailed trading margin bridge. Going through the moving parts, we absorbed headwinds of 120 basis points from input cost inflation and merit increases, and 50 basis points from transactional FX, but more than offset them with 120 basis points of revenue leverage from price and volume, and 190 basis points from productivity improvements, mainly from manufacturing but also across all other areas of operating expenses.

If I look back at the same bridge from last year, the overall profile of puts and takes is much more favourable today. Inflation pressure was less than half of what it was in 2023, and we were able to fully offset with revenue leverage. That means that much of what we gain through efficiency savings is now dropping straight through to trading profit. I will talk later about where there are further savings opportunities beyond what we initially planned for.

H1 operating profit and EPSA

Looking further down the P&L, adjusted earnings per share grew by 8% to $0.376. That is slightly less than trading profit, due to the higher tax and interest expense that we pointed to in our technical guidance at the start of the year.

The interim dividend of $0.144 per share is unchanged.

H1 cash flow and cash conversion

Improved trading and free cash flow on lower working capital costs

Trading cash flow in the period was $284 million, with trading cash conversion of 60%, well ahead of the 26% in 2023. The improvement came from lower working capital outflows, particularly from inventory and payables. As you know, inventory has been a focus of the 12-Point Plan, so it is an encouraging step for inventory days to have broadly levelled off after many years of increases.

For the full year, we are targeting trading cash conversion around 85%, which is a return to our historical levels, and includes the usual higher conversion in the second half of the year.

Free cash flow was positive, at $39 million, with improved trading cash conversion, partially offset by restructuring costs related to the 12-Point Plan. We should see our free cash flow improve as profit steps up and planned restructuring charges are lower in the second half of the year.

More broadly, we are past the peak of restructuring, and we expect it to improve further in 2025.

Inventory by business unit

Overall DSI broadly flat vs 2023, reduction across business units expected in H2

I would like to go into a little more detail on inventory. Slide 15 shows the trajectory of DSI, both for the Group and the business units, with 553 overall days broadly flat compared to the end of half one 2023. We had some initial build of inventory early in the year, to support product launches including AETOS and RENASYS EDGE, and then started to see days reduce again as we exited the first half.

Behind the overall number is also some encouraging progress on mix. One of the drivers of our long-term growth in inventory was past overproduction of slow-turning SKUs, and that has now reversed. Just in half one, we reduced inventory volume of the slowest turning units by 9%. Given that the offsetting increases are in new growth products, that amounts to a significant improvement in our inventory health.

Our goal remains to reduce both DSIs and the absolute dollar value of inventory. We expect improvement across all business units in the second half of 2024, as the new product launches progress, and as we continue to deploy instrument sets.

Longer term improvement will mainly be down to systematically better alignment of our production plans with commercial needs, down to the SKU level. That is enabled by the improved SIOP process, that we established under the 12-Point Plan, and have now fully embedded.

Net debt bridge FY 2023 to H1 2024

Leverage reflects typical timing of cash generation and dividends

To conclude on the first half financials, net debt ended the half year at $3.1 billion. This is an increase of $310 million from the start of the year, including $202 million from paying the final dividend for 2023, and $186 million from M&A, which is principally the acquisition of Cartiheal.

The leverage ratio finished the half at 2.2 times adjusted EBITDA, with the increase from the start of the year reflecting our usual seasonality from timing of cash generation and dividend payments. We expect to end the year with a leverage ratio of around 2 times.

As we continue to improve our cash generation, capital allocation will become more of a focus, and I will come to our thinking around that in a moment.

Outlook

Growth and margin guidance unchanged

Next, I will cover our outlook. After a strong second quarter, we are confident in our full year revenue guidance of 5% to 6% underlying growth. That implies higher growth in the second half than the first, so I will set out where that will come from.

Within Orthopaedics, you should expect a stronger half two overall, consisting of continued good growth in Trauma & Extremities, OUS Knees and Hips and Other Recon, together with improvement in US Recon, as we build on our progress during the second quarter. We also expect improvement in Advanced Wound Management, with further growth recovery particularly in Bioactives.

In Sports Medicine, growth will continue to be tempered by VBP, which will be a headwind for the whole of the second half. In ENT, you should also note a more challenging comparator as we lap a period of backorder clearance that helped growth in the third quarter of 2023.

And finally, second half growth will benefit from two additional trading days versus 2023, compared to unchanged trading days in the first half. As we have previously commented that benefit should mainly be seen in our surgical businesses.

For phasing within the half, the benefit of the trading days will come in the fourth quarter, although given where those trading days fall, we do not expect a fully proportional step up. Our trading margin guidance is also unchanged, at least 18%. While the margin headwind from VBP will step up in the second half, we expect to see our usual seasonally higher profitability.

H2 2023 to H2 2024 trading margin bridge

Margin drivers similar to H1 2024, with additional VBP pricing headwind

Slide 18 shows the bridge to the second half margin of 19.3% that is implied by our full year target and starting from the 19.6% from the prior year. You will see that the drivers are mostly very similar to what we saw in the first half. We expect headwinds of around 130 basis points from input cost inflation and merit increase, and 50 basis points from transactional FX; and tailwinds of around 120 basis points from revenue leverage and 150 basis points from efficiency savings.

The additional factor will be around 130 basis points of headwind from China VBP pricing, with that lower Joint Repair pricing in place for the whole of the second half. That is a gross number, representing the pure price impact before any volume or cost mitigation, and it is consistent with our previous indication of 70 basis points for the full year.

FY 2024 to FY 2025 trading margin bridge

Leverage and net cost savings offset VBP

Our progress in half one also keeps us on track for our 2025 margin target of at least 20%. As in the first half of 2024, leverage from revenue growth should broadly offset the effects of input cost inflation and merit increases, with a significant step up in the pace of cost savings to drive the overall margin expansion. About two thirds of this will be in manufacturing and distribution, including the benefits of our manufacturing footprint optimisation coming through as we move through the more advanced stages of our restructuring plans, but with continued productivity improvements also continuing in our operating expenses.

We will still have to fully annualise China VBP in the first half, but when considered net of mitigation and other offsets, we do not expect a meaningful incremental effect on the 2025 trading margin.

Efficiency opportunities 2023-2027

Additional savings identified as 12-Point Plan productivity initiatives progress

However, there is still an initial 2024 headwind, and as you are aware, it was not known at the time we set our margin target. We continue to seek opportunities therefore to make our business more efficient and offset such headwinds.

Building on the existing work of the 12-Point Plan, we have identified further saving opportunities by applying a zero-based budgeting approach. This means that we can drive the cost savings higher than we initially planned for, and also for longer.

We now see total gross savings at $325 million to 375 million, which to be clear, includes both the $200 million we already announced in 2023, and also the further savings newly identified in this additional review. This will help us get to the 2025 margin target, and continues to accumulate through 2027, with indicative phasing shown in the chart.

I want to emphasise two things about this work. First, you can see on the right that there are comprehensive and detailed plans behind this, over 40 initiatives across seven work-streams, with specific target savings and timings for each initiative. The largest part will be from manufacturing and procurement, but there are savings across all parts of our business.

Second, this is not a new restructuring plan. It is an extension of what we can deliver from the 12-Point Plan, and as such, you should expect that there will not be significant additional restructuring charges, beyond what we have previously guided.

Next step of BU model, with increased cost allocation

We are also planning a change in our segmental reporting. After the move to the business unit model, this is the next step we envisaged to help embed greater focus and accountability on costs as a normal way of operating.

Under our current reporting, we have $211 million of corporate costs in the first half, which is around 9% of the total Smith+Nephew cost base. There are a lot of different things included in that number, such as G&A costs from HR, Finance, Legal and GBS, IT costs, shared sales support functions, and some shared R&D costs. In reality, the majority are not pure central costs, but are services to the business units.

We have started the process of adopting a full allocation of those attributable costs to the Business Units, and from the full year 2024 reporting onwards, only costs that are specifically supporting the PLC will remain as Corporate.

As a result, corporate costs will be around 10% to 15% of what you can see today. By making this change, both the business units and the corporate centre will have greater accountability for all of their costs, and better visibility on the real fully allocated underlying returns.

Increasing focus on ROIC

Driving improvement with both profitability and capital intensity

Coming now to those returns, Smith+Nephew has talked less about return on invested capital in the past, but we are making it more of a priority at both Group and the business unit level. There is good opportunity to drive returns higher through both profitability and asset utilisation. We have given our target for margin expansion from both operating leverage and cost savings under the 12-Point Plan, and the drag from restructuring and the EU MDR project should reduce over time.

I have already touched on how we are working to reduce inventory, and both the manufacturing network optimisation and instrument set utilisation initiatives should help drive fixed asset turns.

Given our progress already, we expect that Group ROIC will start to rise again in 2024. By division, that will come from Orthopaedics and Advanced Wound Management, while Sports Medicine absorbs Cartiheal and VBP. …

Capital allocation framework

As I mentioned earlier, capital allocation will become a more active consideration as our profitability and cash flow improves, so I have taken the opportunity to refresh our policy, which is shown on slide 23.

The first priority remains investing in the business to drive organic growth and to meet our sustainability targets. The focus on ROIC at business unit level and the greater allocation of central costs, will give us the visibility to target our investment more effectively, and we will prioritise investment in the areas where we can expect to see the highest incremental returns on capital.

The second priority is to invest in acquisitions. In line with our current approach, we will target new technologies and high growth segments, where there is a strong strategic fit, and with transactions that meet our financial criteria.

The third priority is to maintain an optimal balance sheet, and an appropriate dividend. On leverage, we will continue to target investment grade credit ratings, and we are updating our target leverage ratio to around 2 times net debt to adjusted EBITDA. We have a progressive dividend policy, and from 2025 onwards, we expect a payout ratio of around 35% to 40% of EPSA. For 2024, we expect the total dividend to be flat year-on-year.

And finally, we will return surplus capital to shareholders via a share buyback, subject to these target balance sheet metrics.

Key areas of focus for Finance

I would like to finish by summarising my key areas of focus for the Finance team, shown on the slide.

Firstly, there is efficiency, and driving cost savings to support margin expansion and reinvestment for growth. The expansion of our 12-Point Plan productivity targets is an early example of that.

Second, we will also drive greater visibility and accountability, through how we report both internally and externally, as with the move to full absorption of attributable central costs.

A third focus is cash conversion, and that is both on trading cash conversion including reducing working capital, and also free cash flow, by reducing restructuring charges.

And finally, we have a renewed focus on improving return on invested capital. We are establishing greater visibility of capital returns at business unit level, and we will make use of that to drive improvement for both the Group, and the individual business units. And part of that is to have a disciplined approach to capital allocation, in line with our updated framework.

Taken together, this is a wide-ranging commitment to drive improved financial performance and create shareholder value.

With that, I will hand back to Deepak.

12-Point Plan updated and strategy

Deepak Nath

CEO, Smith+Nephew

12-Point Plan addressing remaining challenges

Thank you, John. As I said in my introduction, we recognised at the start of this turnaround that while Smith+Nephew is a portfolio of fundamentally good businesses, we had a series of challenges around execution and culture that were holding us back. We set about addressing the challenges with a comprehensive 12-Point Plan, which is summarised on the slide. It should be familiar to you.

It is nearly two years since we first announced the programme, so I would like to take a moment to reflect on how far we have come.

Review of 12-Point Plan

Transformation across wide range of initiatives

Slide 27 has some of our achievements. There is a lot on here, and that reflects the scale of the transformation that we have delivered, both by activity and also importantly culture.

There are three key things I would particularly like to call out. First, is the successful rewiring of Orthopaedics, where we have addressed the long-standing challenges around getting products to customers. At the start of the plan, we had both implant shortages and rising inventory, and on the capital side, both instrument shortages and poor utilisation.

We have now turned all of that around. Implant availability has risen to our target levels across the key brands, and we have stopped the rise in inventory days at the same time.

This is a similar picture with capital, where set availability is now at goal, and set turns have risen 25% since the start of 2022. For the majority of Orthopaedics, this operational improvement has already produced better sales growth.

The second point to highlight is the breadth of our productivity improvements. We have worked on all levers at the same time, including product pricing, procurement, and manufacturing. Clearly, the full benefit is not yet in our reported margins, but you should see it more clearly as we move through 2024 and into 2025, and particularly as we optimise our manufacturing footprint, with four facility closures that we have now announced.

And third, we have continued to drive the businesses that were already performing well. The verticalised business unit structure means that Sports and Wound have stayed focused through the changes that were happening elsewhere and have delivered on their own set of key initiatives.

In Sports, we have trebled the pace of cross division deals, to the point where 10% of US capital sales are with cross-divisional support. In Wound, we have brought a new growth platform to our major markets, with RENASYS EDGE.

US Recon is following the Trauma path to success

Implant supply, capital deployment, product launches and leadership

We do understand there is a lot of interest in where we still have more to do, and I will spend a bit more time on our progress in Orthopaedics.

Importantly, we have already seen clear examples of operational improvements turning into revenue growth inflections, as in Trauma & Extremities and in OUS Recon. These are both high-performing segments now, and when we started the 12-Point Plan, they were in a very different place, and trauma had been a drag on overall Group growth for many years.

The elements of how we have turned Trauma into an important growth contributor, map very closely to the Plan initiatives. We delivered key innovation, with the US launch of EVOS Large in the third quarter of 2022 and that completed our plates and screws offering.

Next, our implant availability stepped up, with EVOS Small first hitting its LIFR target in third quarter 2022, and then staying consistently at goal in subsequent quarters.

The final piece was capital availability, when set deployments started to inflect upwards in the first quarter of 2023. With these things in place, along with good commercial execution, implant sales accelerated in the quarters that followed, getting to growth above our history, and in fact, above the market.

The growth outlook has been further supplemented by our entry into Extremities, particularly with the recent launch of AETOS shoulder. US Recon is not as far along this path, but you can see that the same key elements are in there as well.

On implant supply, key product LIFR reached its target in the fourth quarter of 2023, and capital availability followed soon after, with Hip set shipment also at goal in Q4, and knee sets reaching their goal in the second quarter 2024. This is also being supported by a steady stream of product launches over time, such as the newly-launched short stem hip.

US Recon execution continuing to improve

Remaining challenges from early 2024 being resolved

We are also making progress on improving Recon commercial execution. You will remember this slide from last quarter. We had already done a lot, including establishing new business unit leadership with Craig Gaffin, who had previously led our Trauma & Extremities turnaround. And the team has made good progress on the remaining issues in the second quarter, with those items in orange on the slide.

I just highlighted better capital availability, and we now have a more settled commercial team:

- Key leadership roles are filled;
- Staff turnover is back to a low level; and
- The new growth-oriented compensation plan is now fully in place.

Between OUS recon, Trauma & Extremities and other recon, 60% of Orthopaedics is already growing well. We know that US recon is taking longer to turn, but we also know that what we are doing, works. The US is selling the same product portfolio that is performing well in Europe, even with some different market dynamics; it is following the same playbook that has already succeeded in US Trauma, and it is being driven by the same leaders.

Continued high cadence of product launches

Supporting that, we have continued the high cadence of innovation, which is central to our strategy. In Recon, we have announced the 510(k) clearance of CATALYSTEM. This is a new shorter hip stem suited to the Direct Anterior approach, which represents about half of the US market, and is growing double digit.

CATALYSTEM is designed to be easier to prepare and insert, including simpler instrumentation in just one tray, so will make us more competitive and differentiated in this fastest growing segment of Hips.

In robotics, we have continued to develop CORI, with the addition of pre-operative planning. We have a uniquely flexible platform with CORI, supporting both bur and saw-based resection, and now also image-free and image-based planning for Knee surgery, and Hip will soon follow.

This takes us to ten new features on CORI since 2022, and that has resulted in higher adoption, with an installed base 70% larger than at the start of 2022, and importantly, utilisation is also increasing.

The innovation delivery has continued across the portfolio as well. The full commercial launch of AETOS Shoulder was in Q2, after the initial steps we made last year in 2023. We are also commercialising Grafix Plus, which is a new version in the Grafix skin substitute range, that is easier to handle and targets the growing post-acute market.

Summary

Finally, I would like to connect all of this back to what we said we would do, at last year's Meet the Management event.

On growth, our aim is to be a consistently higher growth company than in the past, with annual revenue growth of at least 5%. After a good Q2, we are on track for a third consecutive year of delivery against that, based on the three components of higher growth we identified at the time.

The first was fixing the foundations of Orthopaedics. As I have just set out, most of the business unit is now growing strongly, and the team and the necessary operational fixes are in place for the rest.

The second was to continue the strength of Sports Medicine and Advanced Wound Management. We are delivering that as well. Sports Medicine maintained its long-term market outperformance in 2023, and although AWM has quarter-to-quarter volatility, it also had its third consecutive year of better growth, at 6.4% versus 5% for the market, and is set to accelerate in the second half.

And we are very proud of the innovation we have delivered across the portfolio. We have launched more than 70 new products in the last five years, and the three key launches we defined as the next wave of innovation are now starting to ramp up:

- AETOS;
- RENASYS EDGE; and
- AGILI-C.

John has set out our progress on profitability and returns. Again, the trajectory is improving.

The trading margin expansion in the first half puts us on track for this year's target, and we have further margin drivers in the pipe for 2025 and beyond.

Cash flow is improving, working capital costs are falling, and restructuring costs are set to also improve. The 12-Point Plan is increasingly delivering the outcomes that we designed it for. We identified the necessary actions for each priority, and they translated first into improving KPIs, then better revenue growth.

With these results, you can see that better profitability and cash flow is starting to come as well. There is still work to do, and the financial benefits will continue to accumulate, supported by a new embedded culture of focus and accountability, and I am confident that shareholder value will follow.

With that, John and I will be happy to take your questions.

Q&A

Speaker: I have three, please. First, on margin. So how much conservatism is baked into the guidance for full year? And actually, could there be a meaningful upside to that 18%? Then on CORI. So you talked about the record quarter of revenues in Q2. How does that translate into placements and utilisation? And do you have any targets you can share for placements for the full year?

And then lastly on cost savings. So on the additional $125 million, $175 million of cost savings you identified, you said that there was no additional investment needed, but then you

talked about restructuring charges in 2025. So can you just tell us what your expectations are for those charges?

Deepak Nath: Sure. Thanks, Jack. So let me take the CORI question, your second question first, and I will hand it over to John, so you can take the first and third.

So on CORI, we have not issued quarterly targets, right? We report revenue from robotics and other recon. But what I would say is in terms of placements, we are into double-digit range in terms of growth period-over-period. What I am particularly encouraged by is actually the resonance that it is having across a range of care settings, not only in the ASCs in regular sized hospitals but it is also an academic medical centres.

And in the past, I have said we have not necessarily been particularly strong in that part of our business in AMCs. And what I am particularly pleased about is that we are getting traction in that segment as well. So it is progressing as I had hoped it would.

The important thing also is we are not just placing these out there. We are placing it where there is a demand for it, where there is a need for it and where your surgeons are using them. So utilisation is actually improving as well. So we will come back at year-end and tell you how we did in the year. I do not want to get into this quarterly kind of what it is.

But what I will leave you with is I am pleased with not only placements, but also the fact that they are being used to healthy levels, right? So I will leave that. And John, do you want to take the other two?

John Rogers: Sure. Your first question regarding margin guidance and conservatism. I mean, the guidance is the guidance. There is no conservatism built in. Obviously, for the first half, as we said, 16.7% around the upper end of the range that we gave. It is important to remember, though, that we have got the full impact of China VBP coming in the second half, and we signalled that in the margin slide. So with that uncertainty, we are comfortable in reiterating our 18% plus guidance for the full year, but I would not assume just because there has been a strong first half that there is any beat to that.

In terms of the restructuring cost question, I think we signalled at the very start of the 12-Point Plan, that will be circa $270 million, $275 million or so of restructuring costs associated with the 12-Point Plan. That guidance remains the same today.

Now we will see probably circa, I would say, $80 million or so in this year's number on restructuring. And if you do your math, that means there is a small rump likely to fall into 2025, probably around $10 million, $15 million or so, but we are not anticipating any further step-up in restructuring.

Then there may be some small nominal costs associated with the additional savings that we have identified, but we will take those above-the-line, where we are comfortable with the guidance on restructuring costs.

David Adlington (JP Morgan): Firstly, just on your additional focus on returns that was quite interesting. Could that lead you to reassess whether some of the lower return businesses still remain part of the portfolio? And then secondly, also on margins. But maybe as you think about the additional cost savings you have found now, obviously supporting next year's margins but beyond next year, obviously begins to look into 2026, how you think about the margin trajectory beyond 2025?

Deepak Nath: Do you want to take that, John?

John Rogers: Yes. So I will take the last question on margin trajectory. I think we are very comfortable in reiterating this year's guidance so we are confident in the target set for next year. I am not going to get drawn into a conversation on what is going to happen in 2026 and beyond.

Obviously, you will see from the trajectory on the chart, the cost savings we would assume we have got a little bit more coming through in 2026, a little bit more coming through in 2027 on phasing. But as you can see from our various margin bridges that we provide you, there is lots of moving parts in the margin, inflation, costs, leverage, etc., etc. So at this stage, I think it is too premature to assume to what extent those additional cost savings, and they are relatively nominal, frankly.

How are they going to fall through into margin in 2026 and 2027? Obviously, we'll provide you with that guidance closer to the time.

Deepak Nath: And in terms of returns, do you want to take that?

John Rogers: Well, look, I think as a management team, we are focused on returns at the business unit level. We are focused on returns at the Group level. I think we see the opportunity to improve across the board, particularly in the Ortho business. If you look at our Ortho business but we are on a journey there. And so we will talk through the return numbers at the year-end, and you will see we expect to see significant improvement in capital returns.

But we are very focused on how we think about the portfolio, where we allocate capital. And as I said in my presentation, the intention will be very much to really only allocate capital where we consider we can get our highest incremental returns going forward.

Deepak Nath: Just one small build on that, David. Where we have historically struggled part of the culture change in our company is that often capital is treated as free. And the biggest impact was in the Orthopaedics business. So when John, on his slide, puts up the focus on margins, which, of course, is important, right, because that is particularly on the orthopaedic side, equally as important is the focus on asset efficiency.

So in terms of what we are changing and how we are operating and how we are behaving as a company, those are the key areas that we look to, to get the improvements in return on capital and orthopaedics that ultimately feeds into the better returns to the better road than we are targeting.

John Rogers: And just to bring that to life and give you a little bit of colour. I have actually got a meeting at the end of this week with the team to talk about how do we extend, for example, inventory performance metrics across a broader part of the business. It is mainly been focused on operations historically, how do we get our commercial teams really talking and thinking about inventory in the way that we would like them to.

To Deepak's point, historically, they've seen it has being free, and therefore it is often on the business on a just-in-case basis rather than a just-in-time basis. So this additional focus on inventory and capital more broadly, I think will be supportive of the improved trajectories that we are expecting to see.

David Adlington: Just to be clear, there is no signal here that you are looking at divesting any particular part of the business that does not meet any returns goals?

Deepak Nath: No, I think we are very comfortable with the portfolio overall. This exercise is being done to ensure that we focus on returns across the Group and the individual BUs and part of the exercise of allocating out the corporate costs is an extension of that, so that we can appropriately measure the capital returns at the BU level. And therefore, from that, make sure that we are driving the right actions, the right behaviors across the business to improve those returns.

But we are obviously always conscious of individual business units' performance and returns. And we are conscious of it in the context of where do we want to allocate our capital. We have choices about where we invest, where we place our R&D funds, where we invest in driving growth in our business and providing visibility of these returns will give us a better means to make sure that we are allocating our cash in our capital where we expect to see the best returns.

Sebastien Jantet (Panmure Liberum): Just going back to returns again then. So David, I welcome the focus on ROIC. Can I ask if you can give us a little bit of the difference of returns between the divisions, ROIC at the moment so we can get a sense of where that lies. And also, I just want to check, are you going to give us the assets by division so we can calculate this ourselves going forward? So that is the first question.

Second question is on the bridge that you have put for the 18% to 20% margin. I could not see anything in there for FX. Presumably, there will be some annualisation of FX in that. Just want to check that 20% is not a constant currency guidance? And also within that, what are your assumptions for pricing? Because obviously, as we come out of a high inflationary environment, where we have been in a slightly unusual pricing environment for med-techs, what are you assuming in terms of pricing in 2025?

And then the last question is coming back to these additional restructuring savings. So I think it is between $50 million and $100 million of additional savings. Perhaps you could give us a little bit more detail on what those are, and why they do not have any costs with them?

Deepak Nath: Sure. Maybe I will take the pricing point, and then you can get the rest, John. So on pricing, as I have commented previously, when the questions come up, our ability to pass through inflation-related pricing in the med-tech sector is quite limited. Against that backdrop, we have been able to pass through some of that pricing. We have also indicated that our plans or guidance that we gave did not necessarily factor in exceptional pricing.

And I did indicate that over this period that we get back to more normalised a pricing environment. That is the basis of our planning, and we do expect some of those tailwind on pricing or ability to pass through inflation-related costs to peter out here as we get into 2024 and 2025. So maybe you can take the rest, John.

John Rogers: So I think your first question was, can I give you some indications to the current returns by business unit?

First and foremost, we will split all of that out and give you that detail at the year-end. And we are not going to disaggregate the balance sheet for you, but we will give you the ROIC number by business units. So you can infer the assets if you want to.

But to give you a little bit of colour on it, it would not be of any surprise to you that if you look at our Sports business, as an example, that is broadly speaking, the Group average. Our Wound business is better than the Group average. And our Ortho business is worse than the Group average, albeit, on an improving trajectory.

So our Ortho business probably at the end of this year will be circa half of what we would expect the Group average to be, but we are driving that half to improve that return over time. But I would say, we will give you a lot more detail at the year-end when we give you those figures.

I think your second question was on the 2025 profit bridge and why no FX? Well, I mean, FX is notoriously difficult to forecast at the best of times. We do hedge going forwards roughly 75% of our cover. As we sit here today, based on our best guess estimations, we think that the FX impact on 2025 will be relatively neutral. Maybe, I do not know, 10, 15 bp headwind. So we have not included it on the chart, but we do not think it is going to be, at this stage, material.

And then your last question I think was on restructuring. What gives us confidence that there are not a huge additional restructuring costs coming through. And it is the depth of your question, which is the initiatives that are going to be driving that.

So there is a lot of opportunities in our manufacturing business that we have talked about in the past. We are doing a lot of work on our lean manufacturing, how do we become more efficient. We are looking at our sales structures, where we are looking at our indirect procurement. Indirect procurement is a big opportunity for us, for example.

And these things, generally speaking, given the locations, given the task at hand, they are not going to require additional restructuring charges. Now there may be some costs associated with that, but we will just take those into our underlying numbers.

Deepak Nath: And just to clarify, our guidance is not on a constant currency. So we will need to work. Part of some of the initiatives to go work harder to identify those additional savings is to offset those headwinds this year and last year's FX, but there were China VBP and other things, right? So it is not on a constant currency basis.

John Rogers: You take these things in our stride.

Richard Felton (Goldman Sachs): Two questions from me, please. First of all, on robotics. How far is Smith+Nephew away from having its fair share of robotics procedures in the US? And then given some of the innovation and upgrades on CORI, do you see a plausible part of getting your fair share? That is question one.

Question two is on China VBP. In your second half margin bridge, you have got 130 basis points of margin headwinds, which, John, you explicitly said was before any offsets. I was wondering if you could give us any sense of what those offsets are? And how much benefit might come with those?

Deepak Nath: Sure. I will take that. So with CORI, we are already placing above our share position with CORI today. We are still in the early stages of our journey. As I said, I will come back a year-end and give you a utilisation number. I gave you that. I cannot remember now whether it was at year-end last year. We have given you the last number. It is fair to say we are substantially above that.

Now even as placements have grown, which is very encouraging, right? So we are replacing them before they are getting utilised. It is an explicit part of our strategy.

And that adoption has been driven by competitive activity, right, going out and representing. It is not just about CORI, right? It is about the whole portfolio. It is important to put that perspective out there, which is we have got a very competitive implant portfolio now with CORI's enabling technology that value proposition in combination is great.

But just double clicking on CORI, the ASC is a big growth driver in the United States. It is not so in other markets, at least not yet. And the form factor for CORI has always had resonance, and we have talked about that in the past, right? It is lighter form factors, it is flexibility, lower cost. All of those things lend themselves to the economics and the practices within an ASC. And of course, we are seeing that and we are placing above our share position within the ASC.

But for us, equally as important is that this is flexible enough across a range of settings. And as I said earlier, in the AMCs, the advantage of having a form factor like CORI is you can have one across multiple OR suites, right? And that is an important piece of it. And it can coexist with other robotic placements. And we are starting to see that play out.

In fact, the number of multiunit CORI deals has been increasing. Was increasing. I called that out, in 2023. We are actually built upon that in 2024. And I alluded to the cross-business unit deals in the context of Sports. And in fact, what we are seeing is across Orthopaedics and Sports and most of those involve CORI in one way, shape or form.

So that has been very, very encouraging. Some of the functionality that we have added has been an important driver of that as well. And you have seen through various presentations what they are and I would not enumerate them for you, but you can look those up.

One important thing I will call out is we are in the very early stages of our hip journey. We called out the fact that we have just now launched CATALYSTEM, which is our offering for the fast-growing direct anterior approach, but there is a whole pipeline of functionality we are going to be adding to CORI. So you will see more of that to come in the coming quarters that should further fuel uptake of CORI. So hopefully, that addresses the question.

It does not give you the numerics you are looking for, but hopefully, the colour and context here.

John Rogers: And just on China VBP, as you rightly call out, the second half 2024 impact is 130 bps. So that annualises effectively for 2024, 70 bps of headwind as we have said and guided to previously. That is both actually a gross and a net number, so pre and post any mitigations in the second half.

In the first half of 2025, all else being equal, if you say, well, then you would have another 70 bps or so of 60 bps of headwind at the gross level. But we believe in 2025, various actions can be taken to mitigate and offset that. There is a little bit around volume that comes through that we think can offset some of that headwind. There is a little bit about cost actions that we will take that would also help us. And they will take a little bit of time to come through. Hence, why you see them in the first half of 2025.

And we have not really called it out detail in the bridge, but there is a little bit of the fact that we are going to be lapping some of the pre-implementation effects that you have seen in the China number for the first half of this year.

So when you look at it on a net-net basis, we say broadly flat. We are calling out. I mean, they may be 10, 15 bps or something of headwind, but we are comfortable with the numbers and the guidance obviously at 20% plus for the full year.

Deepak Nath: Operationally, just one quick build on it. Obviously, we have got experience about mitigating actions, having gone to the Ortho VBP recently that one contrast I will draw for you in Sports versus Orthopaedics is, in Orthopaedics, it is pretty much the whole category that were impacted. In Sports, it is a subset, right? It is a joint repair. The capital piece of it is not. So there is still commercial activity that is going to be needed to represent the portfolio and actually drive Sports across the board, right?

So that is an important difference there between how Orthopaedics went. So the mitigating actions we need to take here have to take that into account. So I just want to operationally draw attention to the fact that it is not exactly the way Orthopaedics went. But obviously, our decisions will be informed by our experience in Orthopaedics.

Graham Doyle (UBS): Three questions, they should be quick. On the first half R&D spend, that was down quite a bit. Is that a factor of last year being overly high or is the phasing? Or just to get a sense of what is going on, what is not?

On the plant closures, are they done now? Have you got through most of that? Should we see a big step up then through second half and first half next year in terms of the margin there?

And then one last one on ASCs, which is, if you look back at your Ortho performance pre-COVID, it was there or thereabouts with market. And then it obviously starts diverging versus peers. And there is lots of reasons that could be, but we did see ASC step up massively in terms of share. Do you think that was a factor in that? And are there things that you can do post this transformation, which get you back on a front foot there?

Deepak Nath: Yes, sure. So first on the R&D spend, that is a phasing thing. So we expect when you step up into H2 and year-on-year should be broadly comparable, and that has to do with the nature of when the spend occurs in any given programme.

Second, in terms of ASCs, what I would like to remind you here is a good chunk. I think we have previously given a number of 40% of our Sports business actually goes through ASCs. So we are actually quite well present in that channel. We know how to commercialise in that channel.

We are in the earlier stages on the orthopaedic side, particularly on the Recon side. The industry is as well, but we ourselves relative to the industry in the earlier stage of that. But with CORI, we have got a great offering, a great part of the value proposition to be relevant in that ASC setting.

And it is not just CORI as one thing, but as we add more features and optionality into it, our value proposition of CORI just increases. We just announced arrangement with HOPCO. As ASCs further evolve and adapt to the requirements around reporting patient-reported

outcomes and other things that becomes an important part of how you increase and enhance your value proposition into an ASC.

So our agreement with HOPCO now is further evidence of us focusing on that channel, improving our offering into that channel and ultimately translate that into outsized performance there.

But we are also very clear eyed about where we can compete, where we are advantaged in ASCs and where we are not. So we have a pretty good understanding of how we segment the market and pretty focused on where we want to win and where we have a pretty compelling value proposition. So all of that should translate into continued better performance there or above-market performance.

As I called out, there is many layers to this whole cross-business unit kind of deals and how we continue to do well with the portfolio we have got. One of those is further drive into that channel.

John Rogers: Plant closures.

Deepak Nath: Plant closures. I mentioned four. We have just announced the closure of Warwick, which is a small site, focused on one particular product portfolio. As we look to drive further productivity and efficiency, we are taking volumes from some of the smaller sites and transferring that over to our larger sites within the Orthopaedics network. So that is an additional closure into it.

Graham Doyle: The Memphis site produces for ex-US as well?

Deepak Nath: Yes, it does.

Sam England (Berenberg): Just two questions for me. So first one on the 12-Point Plan, are any of the initiatives behind where you wanted them to be at this stage after a couple of years? And specifically in US Recon, are any of the operating metrics have improved as a result of the 12-Point Plan, giving you particular confidence in the second half recovery?

And then on GRAFIX, just a quick one. Are you seeing any changes around customer stocking dynamics due to the draft LCDs in skin substitutes?

Deepak Nath: Yes. So the 12-Point Plan, some of the lead indicators, we look at deal activity, particularly around CORI. So that is progressing well. Set turns, I indicated that a reference point was the start of 2022. And we have seen a nice healthy improvement. In other words, our capital efficiency is improving. And that is a result of a lot of actions commercially how we do business, right, commercial processes that contribute to that.

And as we look at our wins, right, they bode well in terms of how the second half is going to develop. So there are some lead indicators within the 12-Point Plan that gives us confidence that the second half will start to see the US Recon turn as well.

Sam England: GRAFIX.

Deepak Nath: GRAFIX. So with GRAFIX, we have not seen particular changes in stocking behaviour as a result of the LCD termination. Obviously, this draft, and it is hard to forecast when that would go into effect, but we are expecting at some point this year, and that will, of course usher in a different dynamic. But we have not seen necessarily different stocking behaviour with GRAFIX related to that.

Caitlin Cronin (Canaccord Genuity): Two for me. First, in Trauma. You continue to note the importance of the EVOS plating launch. Stryker is launching its Pangea Plating System this year. Do you expect to see some competitive headwinds as their product goes out? And then on AGILI-C, how are you thinking about the commercialisation strategy here as you ready your sales team? And for reimbursement, has that been established, what are the codes, etc?

Deepak Nath: I did not acoustically hear the second. What product were you talking on the second question?

Caitlin Cronin: On AGILI-C, just the commercialisation strategy there and reimbursement, if that has been established.

Deepak Nath: Yes, sure. On the first part with EVOS, we are well aware of competitive activity in that area. We feel very good about our offering. Obviously, the results of Trauma over the last couple of quarters give you a proof point of how well do it commercially. So we do not underestimate our competition by any stretch, but equally we are confident of, not only our product portfolio, but actually the commercial team's ability to compete effectively. So we feel good about it.

With AGILI-C, as I mentioned, the initial cohort of our reps have been trained, our early experience with it has been very good, as we go beyond the initial cohort of surgeons. The reimbursement will take time to establish. We are still in the early stages of activity around that, right? But we have good experience establishing this for other therapies, whether it is for REGENETEN's the one that I would call out is the most proximate experience.

So we have got a good team working on it, and we feel good about our ability to get the appropriate reimbursement for innovative technology like that, but we are still in the early stages. Questions on the phone?

Julien Dormois (Jefferies): I have three, if I may. So the first one is from the previous one on Trauma. I mean, having covered the stock for quite a few years now. We have seen that business causing very much like one step forward, two steps back. So just what is the degree of confidence and how comfortable are you about the business now being really back on a nice growth trajectory?

Second question relates to probably more for John, and I mean you already disclosed a lot around this. But in terms of the restructuring adjustments, historically, we had a difference of about probably 6 to 7 percentage points between trading profit and reported margin. This has been something like 10 or 11 percentage points in the past few years. So is a return to normalise or, let's say, to historical range credible in your view? And what would be the time horizon for this?

And the last question also comes back on Wound Biologics and reflecting around the draft LCD. Have you had more discussions on the ground and so on as to how it could impact your share of business in that segment, if you are one of the few lucky companies on the final list?

Deepak Nath: Okay. Well, thank you. So let me take the first and the third one, and I will then pass it to John.

John Rogers: Very good.

Deepak Nath: So on Trauma, acknowledged, you point about us taking a step forward and two steps back. But I do believe we are well positioned. And why do I believe this? We now have the full complement of products that we need. So with EVOS, we have got EVOS Small, Large, the full plating system and full screws to be competitive.

Trauma, in terms of the contracting occurs, typically it is not contracts for large-sized plates or small-sized plates or screws that tend to contract for the whole kit. And we have not necessarily approached that launch as well as we could have, right? It took us a long time to get the full product portfolio together. But we now have the full product portfolio. We can be competitive in RFPs. And it is a very competitive product.

So the strength of the product, the completeness of the offering, and of course, all the improvements we have made around availability and commercial execution is a difference to how we were positioned in the past. So those are the ingredients that I feel good about in terms of our ability to execute, right? So hopefully, it will be now two steps forward without the step back that you have seen in the past.

On the third around LCD. So first off, we are one of the 15 products that are covered. We feel really good about the quality of our offering, the innovation that is inherent in the products we offer and really good about the clinical evidence that supports or the evidence that supports not on the clinical differentiation, but also the economic benefit of our products.

So first principles, we are well positioned there. But I will remind you again that it is draft coverage here. Now in contrast to times in the past, it is all seven MAX now have come out with this. So there is a high likelihood that it is going to go through. But until it is fully implemented, it is hard to say whether in the final form, it will be the same as what we have seen in draft, right?

So this, as you know, is a fairly complex reimbursement mechanism in this category. It is inherently difficult to predict how things are going to go, but you got to go back to first principles, and the first principle is the strength of our product portfolio and the evidence base that supports it. That is the hard stuff, and we are well positioned to navigate whatever reimbursement landscape looks like on that. But it is hard to forecast how this will really play out when the draft turns into final legislation.

John, do you want to take the restructuring?

John Rogers: Yes. So on your question on restructuring charges, I think you were alluding to a history of there being a big delta between our unadjusted profits and our reported profits as a consequence of putting large amounts of restructuring charges through the P&L.

I think just to be clear, we have clearly signalled restructuring charges associated with the 12-Point Plan. They will come through. The bulk of the remain that come through this year, a little bit next year, as I said.

Going forwards, we are not saying there will never be any more restructuring charges. We are just saying we expect our restructuring charges to be significantly lower going forward. So there would not be this material gap, this historical gap that existed between underlying and reported. And I think that is been very clearly signalled.

Deepak Nath: I understand there are more questions on the phone. Take the next one.

Veronika Dubajova (Citi): I have three, please. First one is, just get a commitment from you on what you could consider a success as far as the US Hip and US Knee performances concerning in the second half of the year? I appreciate your commitment to improving performance. Maybe you can tell us what you consider a success versus a disappointment as you think about the second half of the year in the US Hip and Knee growth rates?

My second question is for John. And John, thank you for all the margin bridges. They are incredibly helpful. Just maybe challenge you a little bit. If I look at the second half versus the first half, you are expecting the same contribution, a positive contribution from revenue leverage and on manufacturing efficiencies, but you do expect higher growth in the back half of the year and also more progress on restructuring. So just trying to reconcile those two statements in the bridges and whether there is something that is worrying?

John Rogers: I am struggling to hear what you're saying. Maybe if you can just. We are in a massive hall and it is echoing around. So could you just repeat your question and perhaps a little bit slower. And if you can just pronunciate. It is terrible acoustics in this hall. At least for me, I do not know about the rest of them.

Veronika Dubajova: Of course. No problem. I was just asking about the second half margin bridge. And if I look at the second half bridge versus what you delivered in the first half, your expectation in second half is the positive contribution from revenue leverage, and from manufacturing efficiencies is the same as it was in the first half. But could be you are guiding for better growth in the back half of the year. And you should also be making more progress from some of the savings initiatives that you have in place. So just trying to reconcile those two data points? Why should there not be more sales growth leverage and efficiency leverage in the back half of the year? I hope that was clear.

And then my third question is a bigger question on the portfolio. And obviously, Deepak this is a question that comes up often in investor conversations, and I know you get it a lot. But just your commitment to the shape of the Group as it stands, and any desire to rebalance the contribution from the three divisions, given their respective growth and return profiles?

Deepak Nath: Thank you, Veronika. So I will take the first and the second. I guess, well, there is a pattern here, and I will pass it you, John, for the second.

So in terms of growth. It is a great question in terms of what does success look like in the US? We are clearly below market and we have been over the last couple of quarters. So first step is really get to near-market levels. And that is what we are getting to or expect to get to in the back half of the year.

As we go into 2025, you should expect as the quarters progress for us to get to at least market levels and a little bit beyond. Certainly, in Trauma, we are above market. OUS, we are above market. In the US, getting to slightly above market as we exit 2025 is what we are targeting.

Now it does not sound hugely aspirational, but relative to where we have been, it represents a significant set of efforts for us on the journey that we have been on to get to that point. And if we do that, we are well able to deliver the set of targets that we have committed to you.

Second, on the portfolio question, as you rightly point out, that does come up. And this is not an idle question. It is certainly not an idle question for us as a management team or the Board. But what I can tell you is the single biggest thing I can do for you all as shareholders is focus on driving operational improvement in Orthopaedics.

As I look at all the different alternatives, the single biggest value driver is Orthopaedics humming along. As I said, there was 60% of our business, we are more or less either at or actually above market. We are focused on getting the US to the same place. I have outlined how specifically we are going to get there.

With the US operating this way, that is the biggest unlock in terms of value. What that does also do for us is create options for us in terms of how we move forward as a Group. I have also said previously, I do see synergies across our businesses. Scale matters in med-tech. And at the scale that we are, we do need all of our businesses to be performing for the Group to perform. And we are very, very cognisant of that, which is why in the 12-Point Plan even as we have outlined fixing Orthopaedics, not to be euphemistic about it, but equally to actually continue to nurture our businesses Sports and Wound at the same time.

And I think we have demonstrated that we are and have done that. Will the last remaining bit US in place? We will have a portfolio that basically is in good shape. And that gives us kind of the optionality in terms of how we move forward. So I do not want to dance around the topic, but hopefully, what you see us being laser-focused on the things that we can do right now to drive shareholder value, and that is the set of initiatives I have outlined.

John Rogers: And on your question vis-à-vis the margin bridges for half one and half two, and you made the observation that why we asked the question, why are we not seeing more operational leverage in half two if we have got higher growth and why we are not seeing more efficiency savings come through as we obviously extend and deliver against our plan?

The answer to that question, I think, is reasonably simple. Of course, when you look at the operational leverage, there is two components, of course, to that. There is the price component and there is a volume component. What we are seeing in the second half is a slightly lower price component as a consequence of the timing of how increases are coming through.

So roughly for the year, it is about little bit less than 1% overall on price. But the timing of that is weighted more towards the first half than the second. And on the volume component, clearly, there is a volume step-up in the second half, as there always would be.

Net-net, it so happens that is the same number, the 1.2% leverage dropping through. So that is the first answer.

The second question was about efficiency savings. The reality here is that there is lots of moving parts. As I said to you, there is about 40-plus initiatives underway across seven different work streams. And they are each at different levels of maturity and cost base. And so some that are already well advanced and have been frankly well advanced for 18 months, these are things that have been in train for some time now are now starting to pay dividends.

Others that we are starting and started later, like in many of these initiatives, result in a cost increase sometimes before you have to go through the wave of then delivering the efficiency. And so this is just merely an offsetting of multiple different initiatives over time. And again, it

so happens, broadly speaking, the net benefit of that is the same in the first half and the second.

There is a lot of stuff going on at the moment that probably in this year is a little bit of a drag in the second half, but actually starts to really pay back in the first half of 2025. So that is the reason why you do not see that both the operational leverage flow through in the second half and also the efficiency savings. There is lots of different moving parts to deliver those efficiency savings.

Robert Davies (Morgan Stanley): I have three. The first one was just on the comment you made on previous quarter around the turnover in sales reps in the US business and the compensation structure you got there. I would just be curious to get an update on where we are on that.

The second one was just on your indicative phasing of savings on slide 20. There is quite a big step-up between 2024 and 2025. Just looking at the key risks for what is actually coming through there? And if there is any chance there could be a slippage beyond 2025? And then just the final one was really around where your view was on elective procedure volumes by different regions? You had different messages from various companies of tailwinds versus were already normalised. Just be curious to get your views on where we are on that?

Deepak Nath: I missed your third question. I am sorry.

John Rogers: I got it.

Deepak Nath: You got it? Okay.

Robert Davies: And sorry, the elective procedure volumes.

Deepak Nath: Yes, I got it. So in terms of sales rep turnover, what I had indicated in 2023 is through a significant part of the year in the US had gaps in territories. We had a leadership gap, in fact, in a significant part of the US, and that was one of the contributors to actually some of the performance challenges in the back half of the year, especially.

As we now are in 2024, we filled all of the territories. So we are operating essentially at full strength in the US. All of the leadership team is in place. So we are at full strength. And in terms of turnover in our reps, that is actually come down to normalised levels, right? So all of those point to a level of stability in the organisation.

What is also important is product availability. That has been a very significant challenge for our commercial team. And with knee sets finally falling into place in Q2 on the back of hips really getting there in Q4 of last year and replenishment improving right along the year, product availability, I can tell you is no longer a topic for reps. And that is been one of the factors driving rep churn. So we are in a good place on product availability. We are in a good place in terms of leadership there.

We have been able to attract actually good talent across the industry into an organisation because people are attracted by our product portfolio. We have got great products in Recon. Yes, our share position is reflected, but if you are a patient, if you are a surgeon, you know how good our products are and our reps see that. So we have been able to recruit good reps.

And finally, on the compensation scheme, we have rolled that out, right? As I have indicated, in 2022, we are really largely up until that point, operating in a mode of retention-based

schemes. Now there are good reasons for that. It is because historically, we have had challenges retaining the business for product availability reasons, product portfolio gap reasons and other things so the challenge around even retaining business.

We are now with all of those things. Largely at hand, we are able to be much more front-footed and we have got an incentive scheme that rewards that. Not everybody is going to like that, right? We expect that. But it is now been rolled out and people understand what they need to do to earn their quota. So that is all at hand.

And then in terms of procedures, I have commented in the past that in Recon because we have had performance challenges of our own, I do not tend to comment independently with our own data on how we are doing. We see all of the data sets in the industry that everybody else does, right? But when you have performance challenge in that business, it can be hard to parse what is market and what is you. We can do that very well in our other businesses in Sports and Other things, we have a pretty good view of what is happening in the market. But in Ortho, particularly in Recon, I have been somewhat circumspect about commenting on what is actually happening in the market, independent of what we all see with other companies reporting.

What I can say with that proviso is the market seems pretty robust, back to more normalised levels. We clearly saw in Q1 and Q2 of last year, a very frothy market. We are not in that world right now. We are in a more normalised world. So for us, our assumptions as far as the guidance that we gave assumed a normalised market. So we are not counting on a market tailwind to do our numbers.

Hopefully, it gives you the colour around. It is not a straightforward answer as you might like, but at least you know our thought process there.

John Rogers: And just on your question around the phasing of savings, the chart shows, as you know, accumulated savings over time on a 2023 base. And as you rightly highlight, there is a big assumed step up in 2025 versus 2024. That should not obviously be a surprise to you because our margin guidance for 2025 is north of 20%, and our margin guidance for 2024 is north of 18%. So that is what it takes to get to our 20%.

The reason for that phasing is a lot of the savings that we are forecasting to come through from manufacturing, we see a big step up. But actually, if you look at the chart and you unpick the detail, it is really across all the areas, as we start to implement these initiatives, start to deliver. We get some within year effects in the first year and then we got a full annualisation in the second year and then they build. So that is really explaining the nature of these savings coming through and the timing.

I think you also asked a question about beyond 2025. And again, you can see there is a little bit of further coming through in 2025 and 2026, which, all else being equal, obviously helps margin in those years. But as I said, what I do not want to happen is for this to translate into any form of indications, as to where margins will be in 2026 and 2027. There is a lot of time between now and then, a lot of moving parts and we will come back to that, obviously, in due course.

The one thing I would want to make clear, we said all along that the 2025 margin target is challenging. And it is challenging because of all the reasons we have talked about. We have

got the inflationary headwinds, and they have been perhaps a little bit stickier than we first envisaged. We have got the China VBP, which came out post us providing this target range.

And so we have to necessarily get into the business, get into the detail, look at the 12-Point Plan and we have been able to identify these additional savings, which help us offset some of those headwinds and challenges. But the target of 2025 remains challenging, but we are confident in reiterating the guidance today of north of 20%.

Deepak Nath: I think with that, I understand we are at time. So wanted, on behalf of John, myself and the management team, thank you very much for your attention and engagement and look forward to coming back to you next quarter reporting on progress. Thank you.

[END OF TRANSCRIPT]