Smith+Nephew Q1 Trading Report

Wednesday, 30th April 2025

Introduction

Deepak Math

CEO, Smith+Nephew

Summary

Good morning. I am joined here by our Chief Financial Officer, John Rogers. Pleased to report a good start to the year. We achieved 3.1% underlying revenue growth in the first quarter, ahead of the guidance we provided in February, with consistent performance across all of our business units.

Sports Medicine and Advanced Wound Management continue to perform well in established markets, and US recon is maintaining the improvement that we saw in 2024. We have successfully absorbed known headwinds, including a 240 basis point headwind in China, and there being one fewer trading day.

As we get into the detail of the quarter, you will see that we are building on the operational and commercial improvements of the 12-Point Plan, which has brought:

- Better product availability;
- Better commercial execution; and
- The focus and accountability of the business unit model.

Those foundations are enabling innovation-driven growth across our key platforms.

To highlight a few, CORI, EVOS, REGENETEN, and our Negative Pressure Wound Therapy portfolio, all delivered strong double-digit growth in the quarter, and are visibly driving their broader segment growth rates.

We are also delivering further innovations at a rapid pace. Later, I will discuss new product launches that are expanding our offerings in the high-growth categories of foam dressings and cementless knees. Additionally, I will share new clinical evidence related to Oxinium and rotator cuff repair.

Overall, this quarter keeps us on track for our full-year guidance, which remains unchanged on both revenue growth and trading margin. We should see higher growth in the remaining nine months, given a lower trading day effect on growth for the full year, the peak of the China headwinds having passed, and continued fundamental progress in our commercial delivery, particularly in Orthopaedics.

The drivers of the guided step up in profitability have been in place for some time now, and we should see the benefits of our cost savings and network optimisation flow through to the P&L.

John will come back later to the effects of the recently announced tariffs on our business, but to summarise for 2025, we expect to absorb the impact within our existing margin guidance.

First, John will take you through the detail of the quarter. John?

Q1 2025 Revenue

John Rogers

CFO, Smith+Nephew

Q1 2025 summary revenue performance

Thank you, Deepak, and good morning, everyone. Revenue for the quarter was $1.4 billion, with 3.1% underlying growth, and 1.6% reported, after a 150 basis points headwind from foreign exchange. Those growth rates include the effect of one fewer trading day than in the first quarter of 2024, which, if considered proportionally, reduced growth by around 1.7 percentage points.

Growth was largely consistent across the business units, and I will come to the detail in a moment.

Looking by region, growth was stronger in established markets, with 3.6% growth in the US, and 5% in Other Established Markets. The 1.7% decline in Emerging Markets was due to the continuing headwinds in China, which we believe have now peaked. Growth in the other emerging markets was much stronger, at 14.7%.

Orthopaedics

US Recon maintaining improved performance from Q4; strong growth from robotics and T&E

For the business units, I will start with Orthopaedics, which grew by 3.2% in the quarter, and 5.1% excluding China. As indicated with the full year results, we have changed our reporting practice around robotics to be more in line with our Orthopaedics peers. As of this quarter, robotics consumables sales are now recorded under the procedure where they are used, while capital and services revenue remain in Other Recon. Growth rates are all on a comparable basis.

In US recon, the sequential trend in the headline underlying growth numbers mainly reflects trading days. Normalising for that, US recon maintained the improved performance from the previous quarter. The dynamics continue to be encouraging, with customer churn moving to being net favourable in Q4 and maintaining that in Q1, and a pipeline of competitive conversions building for the rest of 2025.

On the product portfolio, CATALYSTEM continues to perform well against our plans, with excellent feedback from existing and competitive customers. Outside the US, recon growth reflects the expected slow quarter in China, with distributors continuing to reduce their inventory of implants. The overall level in the channel has come down significantly, and we expect it to reach a normal level again in the middle of the year.

Excluding China, OUS growth was healthier, at around 4 points higher in Knees and 7 points higher in Hips. Other recon grew by 46.6%, driven by robotics, reflecting both growth in units placed and a higher proportion of outright capital sales in the quarter's business mix.

Trauma & Extremities grew by 6.3%. As in recent quarters, the EVOS plating system was the primary major growth driver. The growth contribution of the AETOS shoulder is increasingly significant, and we are continuing to develop the platform. We will launch a stemless implant in the US in the coming quarters, and we also aim to introduce planning solutions in H2 as part of CORIOGRAPH, with execution on CORI to follow in 2026.

US Recon trading day adjusted growth

Coming back to US recon growth, the slide shows a time series of underlying growth, both as we report and adjusted for trading days. Adjusting for days gives a more representative measure of our progress from quarter to quarter, particularly with the three day swing from the two extra trading days versus the prior year in Q4 2024, to one fewer day in Q1 2025. We are also now reflecting the new reporting of robotics consumables.

As I mentioned earlier, you can see that we have maintained the improvement from Q4. Our expectation is for further improvement in average daily sales growth as we move through 2025, supported by product availability, the improvements we have made in commercial execution, and the benefits of key growth products like CATALYSTEM and CORI

Sports Medicine & ENT

Continued strong business unit performance excluding China VBP

Sports Medicine & ENT grew by 2.4%, largely reflecting the headwind from China. This was due to lower year-on-year pricing from VBP in joint repair, and early effects in Arthroscopic Enabling Technologies as we proactively manage the channel ahead of the expected implementation in the second half of the year.

We believe we are now past the peak of the China headwind. Comparisons in Joint Repair will become easier in Q2, with the effect fully lapping mid-year. Although the AET implementation is still to come, it should be a smaller overall drag. At the same time, consistent performance from key launches and growth drivers has continued in the rest of the world, even after the strong finish to 2024, and this should be increasingly reflected in headline growth as we move through the year.

For Q1, Joint Repair grew by 2.9%, and 10.6% excluding China. REGENETEN remains a key driver with strong double-digit growth. We added further to the evidence base with the publication of a two-year follow-up from a randomized controlled trial of rotator cuff repairs augmented with REGENETEN, showing significantly lower re-tear rates compared with repair alone.

There was also good momentum from new product launches, including Q-fix knotless and the developing foot and ankle repair business. Arthroscopic Enabling Technologies grew by 3.3% excluding China. There was solid performance across multiple categories, with double-digit growth from both Video and Werewolf Fastseal. Fastseal is an application of our Coblation technology in Orthopaedics procedures, and is a leading example of commercial synergy in our portfolio.

ENT grew by 7.8%, marking a return to more normalised growth after Q4. This growth was led by the tonsil and adenoid business, with the HALO Wand for the COBLATION Intracapsular Tonsillectomy technique. We also continued the rollout of the ARIS Wand which further extends the use of coblation technology into turbinate reduction, with launches in Europe and Emerging Markets.

Advanced Wound Management

Strong performance in high-growth categories of foams, skin substitutes and NPWT

I will finish with Advanced Wound Management, which grew by 3.8% in the quarter. Advanced Wound Care grew 2.5%, with high-single digit growth in foam dressings. We continue to develop our foams portfolio, and are in the early stages of launching ALLEVYN Ag+ SURGICAL into the US market.

Bioactives had a slower quarter as expected, with a decline of 2.0%. While skin substitutes remained in double digit-growth, this has started to moderate as the benefit of the GrafixPlus launch eases. There was also a slow quarter for SANTYL after a strong finish to Q4, again reflecting wholesaler stocking patterns. As a reminder, we expect AWB growth for the full year to be in the low single digits.

Lastly, Advanced Wound Devices saw impressive growth of 15.7%, mainly driven by negative pressure wound therapy, with double-digit growth from both PICO and RENASYS.

Full year 2025 outlook unchanged

I will finish with our outlook. As you can see on the slide, it is unchanged. There is clearly a lot of interest in the implications of the tariffs announced by the US government. The situation remains dynamic, but to give you some sense of our business mix, just over half our revenue is from the US, of which around two-thirds is manufactured domestically. We also manufacture in Costa Rica, the UK, Malaysia, China and Switzerland.

We are working to mitigate tariffs on products and raw materials imported into the US as far as we can. In particular, we have a global manufacturing network that we can leverage, in terms of mix and supply routes. Our approach is not to rely on external factors, but there still may also be some mitigation from foreign exchange, and we are engaging with industry groups like Advamed to explore the potential for exemptions. Based on the tariffs as currently announced and including those coming into effect after the current pause, we expect a net impact of around $15 million to $20 million, which we expect to be able to absorb within our unchanged full-year guidance.

With that, I will hand back to Deepak.

Conclusion

Deepak Nath

CEO, Smith+Nephew

Continued high cadence of innovation

Thank you, John. It is a good first quarter, building on the operational and commercial improvements of the 12-Point Plan. Better product availability, commercial execution, and the focus and accountability of the business unit model have established strong foundations for sustainably improved performance.

As I set out at the beginning, innovation also continues to be a key component of our growth story, and you can see that playing out across our businesses.

In Orthopaedics, EVOS, AETOS, CATALYSTEM and CORI are all growing well. In Sports & ENT, there is REGENETEN, the foot and ankle portfolio, and the multiple applications of our Coblation technology across our surgical businesses.

In Advanced Wound Management, we had good growth in foams, skin substitutes, and Negative Pressure. And we are continuing to build on that with a high cadence of innovation, delivering further new products and new clinical evidence in the quarter.

In recon, we have further developed our cementless knee offering with the addition of the Legion Medial Stabilised inserts, which received 510k clearance. These are designed to provide surgeons with stability and improved kinematics, while aligning LEGION with three major market trends in knees, the shift to medial stabilised inserts, which are now used in over 30% of procedures; and the trends towards robotics and cementless fixation.

In Wound, ALLEVYN Ag Surgical is in the early stages of its US launch, adding a new antimicrobial dressing to our foams portfolio, including new silicone technology for gentle adhesion. We are continuing to innovate in this category, as a high-growth segment within AWC.

On clinical evidence, Oxinium continues to demonstrate exceptional long-term performance. A report from the Australian national registry reveals a 20-year survival rate in total hip arthroplasty of 94.1%, which is the highest among all bearing combinations. This corroborates similar results and peer-reviewed publications from the National Joint Registry in the UK, and is powerful evidence of our proprietary technology.

For REGENETEN, building support for adoption and coverage through clinical evidence is a key part of our growth strategy. We added significant new data in the quarter, with two-year follow-up data from a randomised controlled trial in full thickness rotator cuff repair. Regeneten showed a highly statistically significant reduction in the re-tear rate, with a 65% lower relative risk compared to repair alone.

With the combination of increasing penetration in rotator cuff supported by evidence, and the addition of new clinical applications in ligaments and foot and ankle, REGENETEN is set to continue as a long-term growth driver for the company.

Summary

I have said many times that 2025 is a key year of delivery, and 3.1% growth in Q1 is a good first step. When I look at the moving parts, the long-term tailwinds of commercial improvements and innovation-driven growth are continuing to come through, while the two headwinds of China and trading days have both peaked. This is a good set-up for the rest of 2025 and beyond, and I look forward to updating you further as we move through the year.

Now, we can move to your questions.

Q&A

Richard Felton (Goldman Sachs): Two, please. The first one is on the phasing of growth through the year. On your full year call, you shared some reasonably detailed thoughts on how to think about phasing. Has anything changed in your view as you move through Q1? Can you maybe remind us of how you see top line growth progressing in Q2 and beyond? That is the first one.

My second question is a product question on REGENETEN. I mean, could you maybe give us a little bit more colour on what is driving growth within that product family? How big it is in your portfolio today? Then following the 510 clearance for the extra articular ligament repair at the end of last year, how much traction are you seeing there? How big could that opportunity be over time?

Deepak Nath: Sure. I will maybe take a quick shot at REGENETEN, and I will turn to John to cover. But generally speaking, Q1 was our lowest growth quarter as this is what we guided to at full year. Because of the receding impact of the headwind from China as we flow through the year and the unfavourable impact of trading days also falling away, we should have growth pick up sequentially in each of the quarters going through.

We expect in Sports for growth ex-China to continue at near double digits, and in Wound as well across all the categories to continue to build as we go through the quarter.

In Orthopaedics, what we have guided to is specifically in the US recon side for sequential improvement quarter-on-quarter as we get to market growth levels by Q4 of this year in recon, and we are on track to achieving that.

I will let John cover further details beyond that, but you should expect sequential improvement as we flow through the year.

In terms of REGENETEN, last year, most of REGENETEN utilisation was in the shoulder. We have indicated that REGENETEN is a platform technology, and we expect to develop evidence for appropriate use of that in other joints. What we have found now is roughly 10% of our utilisation of REGENETEN is actually in now foot and ankle, which is a change relative to where we were last year, and that points to increasing utilization of REGENETEN, not only with further penetration into shoulder to rotator cuff repair, but also now increasing adoption of other joints and foot and ankle is the second category.

We expect REGENETEN to be a meaningful growth driver as we called out that it is now a material part of the growth story.

John Rogers: Maybe just to add a little bit of colour on the growth trajectory. I think Deepak has covered some of the key component parts, but we all expect that Q1 would be a little bit soft. We guided to the 1% to 2% obviously delivering 3.1%, so a little bit beat in Q1. We expect to see a step up in Q2.

Then in all likelihood, I think Q3 will be a little bit of a further step up. We will see another step up in Q3. Then Q4 will actually step back a little bit because, obviously, we had a very strong Q4 in 2024. But generally speaking, that is the shape of the growth trajectory, all of which of course aggregates to around 5% growth for the year overall.

Julien Dormois (Jefferies): I have two. The first one relates to the performance of the recon business outside of the US. It would be interesting if you could shed more light on what is going on outside of the US. Obviously, your performance in the US is improving by the day, but maybe at the expense of what is happening outside of the US. Maybe if you could shed more light on what is happening there, that would be helpful.

The second question relates to more of a housekeeping question. In light of the market swings in FX, could you just remind us of what your expectations would be at this stage the FX impact on your margin this year? I think you have a hedging policy in place that probably delays some of the potential benefits from a weaker dollar, but any colour there would be helpful.

John Rogers: Yes, just on your last question on the margin impact. I think we said at the prelims, we expect the forex to be actually broadly neutral. Obviously, since then, there has been a weakening of the dollar. We think that is going to translate into a tailwind of 20, 25 bps something of that nature for the full year. Of course, that could change, so it will vary quite volatile market environment, but 20 to 25 bps or so.

In terms of the question on the OUS Orthopaedics, I mean, we saw 2.7% growth for the quarter. It seems reasonably healthy. Knees slightly positive. Hips, a little bit more challenged, but certainly good growth in other recon, plus 46%. So good quarterly sales in the quarter. But overall, we are very comfortable with the trajectory.

We should see Q2 be relatively similar to Q1 and then we should see a step up in Q3 come through is the expectation.

Deepak Nath: OUS, needs just to remind you again, this was on the slides, ex-China, so at 4% in Knees and 7% in Hips.

John Rogers: Exactly. To your point, Deepak, that explains the step up as we go into Q3 as we see the China impacts starting to annualise effectively through Q2, hence why we see a step up in Q3 and Q4.

Jack Reynolds-Clark (RBC Capital Markets): Two for me also. Starting with revenue guide. Obviously, Q1 stronger than expected. I am just wondering how is Q2 shaping up so far? John, you talked about a step up in Q2. Are you seeing that kind of come through?

Should we be thinking about potential upside for that kind of around 5% underlying revenue guide, given that you are not expecting things really to slow down through the remainder of the year.

Then the second question was just on tariffs. Could you talk a little bit more about the offsets you are implementing? i.e. give a bit of detail around the operational offsets, and what these comprise and how much you might be able to implement price increases?

Deepak Nath: Sure. In terms of revenue guide, obviously, we are not commenting on subsequent quarters, but we have maintained our revenue guidance of around 5% for the full year. Given that we exited at 3.1, you can expect that, growth should step up in subsequent quarters for us to attain the revenue guide. We feel good about how we are positioned, really right across the portfolio when you look at our business across regions.

We have already commented on China. But look at all the established markets, emerging markets. We feel good about how we are positioned there. And we look across our businesses. We feel really good about our position there, in particular in, Orthopaedics, and especially in the US recon part, which was the last bit of our business, we were expecting to turn around this year. We feel good about how we are positioned, how we performed in the quarter in terms of maintaining the momentum from Q4.

As we look at the rest of the year, we are particularly encouraged by the fact that the churn in surgeons has reduced. Now that started to minimise towards the end of Q3, and really turned positive. In other words, a net gain of surgeons in Q4. That picture was maintained in Q1, and that sets us up nicely for the rest of the year.

The contrast to that is in years past, where we had surge in churn in the negative territory in the beginning of the year, which of course would create challenges for the balance of the year. So we feel good about how we are positioned to achieve the top line part of the guidance we provided.

In terms of tariffs, what we are focused on is mitigating actions for that. As John pointed out, we have got a manufacturing network that gives us a measure of flexibility in terms of how we supply the market, how we direct product flows in order to minimise the impact of tariffs. We have given you a sense of what the impact is going to be, net of the mitigations that we can foresee operationally.

In terms of the longer term, obviously we have got the manufacturing sites where we have got it, and there is differing levels of exposure across our businesses. In Orthopaedics, we are relatively well positioned, because of our manufacturing presence in Memphis, which is our major orthopaedics manufacturing centre. But we also have Malaysia ramping up at the same time that allows us to actually position ourselves depending on how retaliatory tariffs go into effect.

There is a very dynamic picture, as John said. So we will have to figure out how we balance where we manufacture and how we supply markets from, which factories to supply the market. Those are some of the things underneath the headline of mitigations.

John Rogers: Maybe just to help you and to clarify in terms of our guidance number, the bottom end of our range is based on the current, what I might describe as the 10% base case scenario, so basically 10% plus of course China. The bottom end assumes that being in place for the remainder of the year. The upper end of our range, the $20 million assumes the reversion to the announced rates coming through on 8th July. That, of course, includes the China retaliatory rate as well. Just to be clear, what we have assumed in giving you that guidance number.

Lisa Clive (Bernstein): Can you just give us a little bit more guidance on the margin progression around the Malaysia ramp up and then specifically, I think you were going to be closing down four plants. Were those all in Europe? Just trying to understand in terms of the progression of your COGS this year and also potentially in the next year? How to think about that?

Then just second on tariffs. Thank you for the guidance on that. It is very helpful. Between the US and Europe, I mean, it seems, US, China, you are pretty well positioned. US and Europe, my understanding is there is a bit more back and forth, I think if I am right, that there is a fair amount of sports medicine that goes from the US into Europe. Just thinking through in a worst case scenario where things ramp up with Europe, how well positioned you are to mitigate that?

Deepak Nath: Sure. I will take that. Hi, Lisa. First, in terms of margin progression, what we have said in 2025 is the step up in margin will come through the benefits of the network actions we have taken in Orthopaedics coming through this year. We have closed four plants, as you alluded to, and three of them were in Europe, one in China is how that lays out.

That is an important part. In other words, the taking out of fixed costs associated with those plants is where the benefit comes in. What we have done is transfer the production that was occurring in those plants into either Memphis or Malaysia.

What is important to keep in mind is these plants were specialised by particular SKUs. It is not like we had four factories producing everything. There were particular SKUs being produced in these factories, which we have transferred, as I said, into Malaysia and into Memphis.

From a margin progression standpoint, it is the overall costs coming out, that contributes to that and the benefits of that production coming through in Malaysia, where we have lower labour costs, and in Memphis, where we have got greater scale than we had in those factories, translating into better COGS. That is the benefit that we see coming through in 2025. It is a key underpin for the step up in the back half of the year.

Regarding tariffs, in terms of US and Europe. I mean, roughly the way to think about it is we have got China, we have got Costa Rica and we have got Malaysia. Roughly two thirds of the tariff impacts come from China. China, you have got high tariff levels, relatively low volumes in terms of where the impact is.

Costa Rica is relatively high volumes, but relatively lower tariff levels. And Malaysia, somewhere in between. As we think through this now between US and Europe, in terms of Sports Medicine, most of the volumes actually come from Costa Rica. So relative to US and Europe, they are not necessarily going to be impacted. We do have a factory in Mansfield in Massachusetts that does supply the world, and would impact Europe along with other geographies. But the volume is out of Costa Rica for Sports Medicine.

In general, I would say, for your modelling, you should take a look at China, Costa Rica and Malaysia as the principal sources of impact.

Hassan Al-Wakeel (Barclays): I have three, please. Firstly, on margin. Deepak, at the full year, you pointed to tightening the range at the Q1 stage. Appreciate things are changing very rapidly. But given the $15 million to $20 million impact from tariffs or around 30 basis points, is the lower end now more realistic?

Secondly, on growth, which was stronger than your expectation at the full year. Can you talk about any updated views on hospital utilisation for the rest of the year? Also any competitive dynamics that you are observing, given some launches in Hips at some of your peers?

Then finally, can you talk about the strength in CORI placements in the quarter and what is driving this regionally? Also, given the restatement of consumable revenue, can you provide the growth in consumable revenue in the quarter that has now moved to recon, and whether this was meaningfully different to underlying growth in the recon business prior to the restatement. Thank you.

Deepak Nath: Sure. Hi, Hassan. In terms of margin, no. We have set a range of 19% to 20%. We have said you should think somewhere in the middle of that as the expected outcome, was kind of our commentary and that has not changed. You can work out now what that means, given that we have said that in the face of a tariff impact of $15 million to $20 million. Bottom line, no change in the guide or no change in expected outcome.

Second, in terms of growth being stronger. As I said, we have anchored to around 5% at the beginning of the year and we reiterated that guidance and implied within that as a step up, and I have already answered that previously, which is expected to come across all of our businesses and indeed all of our geographies.

In terms of the competitive picture in Hips, we actually feel very good about how we are positioned with CATALYSTEM. As you will recall, until recently, we did not have a short stem offering, which basically meant we had limited participation in the direct anterior approach that is now an increasingly a bigger part of Hips procedures, particularly in the United States.

With the launch of CATALYSTEM, we now have the ability to better participate in that growing proportion of the market and our early results, quarter plus into the launch, we could not be happier with the level of uptake and the type of feedback we have received, not only from our own surgeons, but also from competitive surgeons as well. Really, really nice uptake of CATALYSTEM, which we believe will be a growth driver and we feel very, very good about how we are positioned relative to competitors there.

In terms of utilisation in the overall procedures, historically I have said I have shied away from commenting directly in terms of what is happening in the recon market in the US because we have had performance challenges. When you are in that position, it can be hard to parse what is going on in the market versus what is you.

Given we are still in that recovery path, I am loath to comment independently from our vantage point beyond what we see in terms of reports and everything else that everyone else sees. Still loath to comment on that, but generally speaking, I feel good about our ability to progress relative to market in each quarter and exiting the year at market levels. So we remain committed to that.

In terms of CORI placements, very pleased with the geographic mix, as you alluded to. In particular, we have been quite strong OUS. Over the last few years, the picture in the US has continued to improve and that improved also in Q1. We are encouraged by not only that, the relative strength in the US, but also where we are placing them. We are placing them in hospital settings. We are placing them in ASCs.

And as important as placements are, utilisation is really the thing that we are looking for because it is not about just placing CORIs, it is about whether they are being used. That utilisation rate continues to remain, very healthy in the face of increasing placements. That goes to show the level of uptake we are having with CORI.

In terms of how we are doing this, we are not restating the numbers. We are simply reporting, utilisation within the relevant category to bring ourselves more in line with peers. We are obviously providing the breakdown so you can compare ourselves any which way you would like. So there is perfect transparency to how we are commenting on the numbers.

Overall, in terms of consumables, a very healthy uptake in terms of utilisation, which is what the consumables number tells you. There is a little bit of a mixed thing that John commented on, which is we had a bit more capital placement, so outright sales versus placed capital in this quarter. That does tend to vary from quarter to quarter just based on the individual contract dynamics. So there is not much to read into that.

But what you should take away from the growth in consumables overall is that the CORI that we are placing are getting utilised, which is a sign of health that we are looking for. Overall, very pleased with the type of picture that is evolving there on robotics.

John Rogers: Just to maybe give you a little bit more colour, Hassan, on the size of the consumables piece and the impact it has in shifting it from other recon into Knees and Hips. Just from a Hips point of view, I mean it is relatively de minimis. The numbers under the new reporting regime for Q4 versus Q1 is 4.2 playing 3.6 in new money, if you like, and then 4.1 playing 3.6 in old money. So it really does not make much of a difference on US Hips.

In relation to Knees, obviously where it is a bigger impact, we are shifting somewhere in the region of $5 million to $6 million from other recon into US Knees. The Q4 number we talked about in old money was around 2%, and in new money is around 3%. If you remember, at the time, we said it would make roughly a 1% plus contribution. The Q4 number shifts from 2% to 3% in old versus new money, and the Q1 number roughly 1.5% or so to 2.5%, again, the 1% additions. That helps you size the movement.

Kane Slutzkin (Deutsche Bank): Great. Just a quick one. John, just on the US recon. I seem to recall you saying that the round table in February that the US Knees needed to be 2% in Q1 and to exit at 3% in order to really be on track to return to market growth. Could you just confirm that was the case? On the adjusted measures you have given for the trading days, would it be fair to say you are there and thereabouts?

John Rogers: Spot on. I mean, I think we said from an ADS basis, we said we would be consistent Q4 to Q1 at around 2% or so, and then we would expect to see that 2% grow on an ADS basis through Q2, through Q3, and we would plan to exit the year at around 4% or so. In fact, the numbers as we are reporting today confirm that trajectory.

We remain confident in looking forward to our pipeline and Deepak's comments earlier on about the account wins and account losses and the continued positive trends that we are seeing there, that we remain on track to deliver that improvement trajectory through the remainder of this year.

Kane Slutzkin: John, sorry, I just missed something you mentioned earlier when you were talking about the scenario that play out to get you to the lower and the upper end of that 19% to 20% range. Appreciate, Deepak, gave us a view that you have probably going to come somewhere in the middle. But could you just relay those scenarios? Sorry, I completely missed it. You were suggesting something around what gets you to 19% versus 20%?

John Rogers: Yes. Just to be clear, the range on tariffs is $15 million to $20 million impact. The bottom end of the range is based on what I describe as being the current 10% base case in most countries, on a 10% tariff, China on 145%, the retaliatory 125% on China, etc.. If that is in place for the remainder of this year, that gives you the bottom end of the range. The top end of the range, the $20 million assumes on 8th July that none of these issues are resolved and we revert back to the tariffs as announced.

Again, I won't go through all the details, but that is largely the China remaining in place. Clearly, Malaysia kicks up to 24%, Costa Rica goes up a little bit and so on and so forth. So the tariffs as announced as we would revert to all else being equal on 8th July, that represents the top end of the range. Hopefully that gives you the bounds of both the bottom and the top end of what we have provided.

David Adlington (JP Morgan): Firstly, just on China. Maybe you could just remind us of where China peaked as a percentage of sales and where you have come down to as of this quarter in terms of percentage of sales. Following on from that, does it still make commercial sense to maintain a presence in China?

Then secondly, just to fully clarify, John, because I might have been a bit stupid this morning. But when you talk about the range and the top end of the guidance that you just pointed to, are you talking about 15% to 20% as in the impact of the tariffs or the 19% to 20% margin range that you have given?

John Rogers: I am talking about the tariffs, David. The bottom end being 15%, the top end being 20%.

David Adlington: Right. Understood. Perfect.

Deepak Nath: $20 million in tariff impact just to be clear.

Regarding China, David. Today when we talk about the China impact fading away, so we have seen the peak in Q1. What we mean by that now is China was previously, for us, about 7% of sales. This year when we look at our budget, it is down to about 1.7%, 1.8% of sales.

John Rogers: For Q1, we are about 1.9%. For the full year, we think we will be about 2.4%.

Deepak Nath: Thank you. John. China is now a significantly smaller portion of our business. When we talk about now, AET part of our sports business coming under VBP, that gets implemented, we think in the back half of the year. The impact of that is significantly lower than joint repair, because it is a smaller portion of our business. China overall is now quite a smaller proportion of our overall business. Hopefully that gives you a little bit of a picture about the reducing proportion of China within our book of business.

In terms of commercial steps to counter that in China, obviously, we have got some practice at this, if you will. We implemented changes in our go-to-market model in China following the implementation of VBP in recon. When that came through in Sports, we were informed by our experience of our recon side that we applied.

Suffice it to say that we are applying the lessons as we go forward, and at the end of the day, to make a business now at a significantly lower price level be profitable for us. That involves a series of steps that we have got to make in country in order to make the business profitable there. But we have got experience now doing this, having gone through this a couple of times.

John Rogers: David, maybe just to help give you a little bit more shape on the China trajectory as well, because this is obviously a key driver for our improving performance on the top line as we progress through the year, and indeed also on the margin as well.

In Q1, year-on-year, we were down roughly 50% in China. We think that is the peak of the China impact. To give you a little bit of a guide, in Q2, we are forecasting to be down 35% to 40% in Q3, down 30% and in Q4, down 10% to 15%. You can see it is having less and less of an impact as we progress through the year, which correspondingly helps our top line, and equally, it helps the drop through in terms of our profitability.

David Adlington: Just to clarify, are you profitable in China currently in any of the businesses?

Deepak Nath: Yes. Just I was going to come back to that actually. As a result of the commercial steps we have taken, when you look at the profitability of our affiliate in China, it is kind of middle of the road when we look at the country level profitability across our geographic mix.

In other words, we are profitable with our current book of business. In terms of the league tables, it is middle to maybe a little bit on the upper end of the range when you look at the country mix.

Veronika Dubajova (Citi): Most have been asked and answered already, but maybe just two. One, I guess, just looking into 2026 and the tariff impact as it annualises out on the worst case scenario. Is there any more mitigation that you can do, John, as you think about 2026, or should we be taking the number you have given us for this year and doubling it for next year as far as tariffs are concerned? That is my first question.

Then my second question is, no one has asked about what we spent all the time on Ortho. But just the strength in devices, if you can talk to what is driving it and how sustainable you feel that is through the rest of the year?

John Rogers: Maybe if I come to the tariff one, and Deepak talk on the AWB. Look, I mean, there is the obvious. There is a lot of moving parts on tariff, a lot of uncertainty out there. But as you would expect, we have done all the scenario planning positive, negative, different variations, permutations and combinations and so forth.

I think without getting drawn into a huge amount of detail on unpicking that, I think what we what we can feel reasonably confident of is when we have looked at all those in the round and we have combined that with, of course, our improving margin trajectory and the savings that we have got coming through, both operational savings as well as what we can do from a very specific tariff mitigation point of view, then we are comfortable that we will continue to see an increasing margin come through in 2026 and beyond.

Deepak Nath: Great. Regarding devices, just to orient you, it is both our single use that is PICO and our traditional use product portfolio and RENASYS, and of course, there is some other products like LEAF that are included in there. All of those products are growing, so very encouraged by the performance there.

PICO has had a long track record of delivering growth. Q1 just builds upon the trajectory that we have built up over time. It is a picture of continuing performance.

With RENASYS now, it too was a growth driver, but we have got very solid performance of RENASYS as well in Q1, as we adapt our business model within that category, we expect that to be a more meaningful growth driver as we get into subsequent quarters. Very pleased with how we are positioned there and how we are starting to perform.

LEAF is another component of devices. It is still a relatively small part of our overall portfolio, but it has been a nice growth driver for us. Hopefully, you will hear us talk more about it as we go through the future. But overall, all of the product portfolio is growing nicely within that category.

Dylan van Haaften (Stifel): First one, just on the current working capital with Ortho. Because from my understanding, you guys have at least a couple of years of working capital, theoretically in Ortho. Does that help you offset some of the tariff impacts? And is that embedded into this number?

Deepak Nath: Short answer is yes, but I would not get too carried away with the favourable impact of inventory because the devil, if you will, is in the details and it is in the SKU mix, right? What we have, actually, and you have heard me comment on this before, which is one of the challenges we have is not only do we have high inventory, we started at the beginning of the 12-Point Plan back in 2022 with the wrong mix, if you will, would produce not quite the right assortment of products given our underlying demand, which means the new production now, the new inventory putting out is much, much healthier, and we have given you some proxies to assess that. But the base inventory level will grow into over time.

You put those pieces together, yes, at a high level, it does help you having a bunch of inventory. But the truth is that there is devil is in the detail. As we produce the right mix of products to cater to demand, that will be hit with the level of tariffs that we have got today. But you are right, at a first level, the inventory does kind of help you.

Dylan van Haaften: Just one follow up. Just thinking about progression into the year, are you guys at all concerned about any consumer dynamics? Could you maybe just remind us, what the rough Ortho, private payer and copay exposure is? If you are at all concerned, any change in behaviour there could change growth dynamics for the market.

Deepak Nath: Look, I think the operative word here is dynamic or uncertain. I mean, there is clearly enough uncertainty and enough dynamics here. Here is how we put it. There is an underlying demand that is driven by demographics. If you look at our mix of businesses that go through Medicare versus commercial, that helps you think about the relative exposure in each of our businesses.

At the end of the day, the demand for our products are based on medical need and underlying demographic factors. The demand is likely to be there. But of course, particularly in the US, things like copay and other things do determine the ability for patients to access that care. Yes, there is some level of concern.

Going back to some of the questions that people asked earlier around top line, would be based on how we all turned in Q1, would we raise our guidance for the full year. Part of the reason why we have not is, in fact, to take some of these uncertainties into account.

Robert Davies (Morgan Stanley): I had three. The first one was just in terms of the China phasing that you gave the sort of down 50%, which was progressing towards minus 10% over the year. Just curious in terms of the visibility, give us a bit more colour perhaps in terms of where that comes from. What is the underlying assumption in that trajectory over the year?

The second one was just on. I know you mentioned in some sort of manufacturing or factory closures in different places. Just wondered if there is anything more to do on that. That ties in with the third question, which is just where we are big picture on the 12-Point Plan. What are the key elements of the 12-Point Plan you still have got to achieve, and are there any additional opportunities that you have come across over the last year relative to what you started out with?

Deepak Nath: Sure. In terms of factory closures, the hard work around closing of factories, people impact associated with it, all of those things, that is already done. All of that done. Work was completed in 2023 and the early part of 2024. What we are expecting now in terms of the financial impact of that, as I indicated earlier, is when we transfer the production into our remaining facilities in Orthopaedics Memphis and Malaysia, that we will see the benefits of basically the better cost position we have in those factories coming through.

Of course, the fixed costs coming out of our cost base of the factories have been closed. We are on track to seeing those financial benefits come through. There is no more, if you will, operational work that needs to be done around factory closures.

In terms of the 12-Point Plan, essentially there is ongoing work from what we embarked upon as part of the programme that needs to progress, and the benefits that to accumulate. But there is no new initiatives that we need to kick off. It is just a continued execution of the work that we identified and really embedding the new ways of working, the new rigour, the new culture of accountability that we built in the organisation that I am very pleased with how that has gotten embedded within the organisation.

In effect taking the improvements that we have already made around 12-Point Plan and making that stick. We have always said once the programme formally concludes, as it has, the full benefits of that will flow through in the remaining year, and that is the year in 2025.

One of those examples is related to the factory closures that you asked about, but there is some of those in each of the other 11 elements of the plan. What we had said last year is we faced increased level of headwinds compared to what we started at the initiation of the 12-Point Plan. Inflation, a higher level of inflation for longer than we assumed. VBP in Sports, that was not a factor at all at the time that we announced the programme that ended up being highly material for us.

We had to look for ways to offset those increasing headwinds. Some of those were going deeper and further than we originally envisioned in some of the elements of the 12-Point Plan. In other ways, we had to look more deeply into our cost structure.

When John came on board, we kicked off a zero-based budgeting kind of approach that allowed us to go after higher level of cost savings and more productivity, which is one of the elements of the 12-Point Plan. We just went deeper as a result of some of the work we did there. We have, in fact, already done that in order to address the higher level of headwinds that we saw relative to when we kicked off the programme.

I feel very good about not only what these initiatives have delivered already, as we highlighted in our full year, but also how we are set up now to see the accumulated benefits of those coming through in 2025. All that going well.

Maybe, John, you can take the question around the phasing.

John Rogers: I mean I am reluctant to give you even more breakdown on what is now a relatively small part of our business in terms of the phasing. Q1, I have already given you quite a lot of detail, but just to help shape things a little bit. Obviously on the Ortho side, we expect to see a reasonably strong recovery in our Ortho. As we work through the channel challenges that we have had. We were down quite significantly in Q1. We expect it also to continue to be down in Q2. But on improving trajectory, Q3, a little bit down but maybe flat. Then a little bit positive in Q4. As we fully work through those channel adjustments.

Sports Medicine, it is the same pattern of recovery through the year. But there is a number of different dynamics there. There is the annualization of the joint recovery piece, as we go through the second quarter. Then, of course, there is the impact of the AET, VBP in the second half. That means that the actual movement in our Sports, whilst it remains negative through the year, it is an improving negative trajectory. So call it around 50% down in Q1 and then improving getting less negative as we progress through the year, but still exiting negative because of the impact of AET.

Then, in fact, if you look at our Wound business, and of course our ENT business, both of those remain in reasonably pretty healthy growth, actually in quite strong performance. That gives you gives you a little bit of the component parts that shape up the overall trajectory that I described earlier on.

Deepak Nath: Absolutely. That was our last question. Appreciate all of the interest, all the questions. Just to summarise, we have had a great start to Q1, and we are set up well for continued delivery through 2025. I look forward to updating you as we progress through the year. Thank you very much.

[END OF TRANSCRIPT]