SMITH & NEPHEW PLC
Form 6-K
August 04, 2005

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 6-K

Report of Foreign Private Issuer

Pursuant to Rule 13a-16 or 15d-16 of the

Securities Exchange Act of 1934

August 4, 2005

Commission File Number 001-14978

SMITH & NEPHEW plc

(Registrant s name)

15 Adam Street

London, England WC2N 6LA

(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.

Form 20-F x Form 40-F ¨

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1).

Yes ¨ No x

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7).

Yes ¨ No x

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing information to the Commission pursuant to Rule 12g3-2 (b) under the Securities Exchange Act of 1934.

Yes ¨ No x

If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2 (b) : 82- *n/a*.

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Smith & Nephew plc

INDEX TO EXHIBITS

Item 1. Press release entitled Smith & Nephew Reports Strong Second Quarter Results, led by 18% Growth in Orthopaedics , dated August 4, 2005.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Smith & Nephew plc
(Registrant)

Date: August 4, 2005

By: /s/ Paul Chambers

Paul Chambers
Company Secretary

Item 1

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Smith & Nephew Reports Strong Second Quarter Results, led by 18% Growth in Orthopaedics

4 August 2005

Smith & Nephew plc (LSE: SN, NYSE: SNN), the global medical technology business, announced today its results for the second quarter and half year ended 2 July 2005.

Q2 Highlights

Group revenue up 12%* to £351m

Orthopaedics revenue up 18%*, US up 22%*

Endoscopy revenue up 7%*

Wound Management revenue up 6%*

Trading profit up 18%, margin improves to 20%

EPSA up 16%** to 5.83p

H1 Highlights

Group revenue up 12%* to £681m

EPSA up 16%** to 11.22p

Interim dividend up 10% to 2.10p

Commenting on the second quarter and the outlook for the year, Sir Christopher O Donnell, Chief Executive of Smith & Nephew, said:

Our revenue and earnings momentum continues to be driven by new product introductions and investment in our sales force. Orthopaedics strongly out-performed the market across its product areas and we expect its run rate to continue into the second half. Endoscopy performed in line with our expectation and Wound Management improved in the quarter. This revenue momentum, and continued margin expansion, makes us well placed to achieve our underlying mid-teens EPSA growth goal for the full year.

A presentation and conference call for analysts to discuss the company s interim results will be held at 1:00 pm BST / 8:00 am EST today. The conference call will be broadcast live on the web and will be available on demand shortly following the close of the meeting at http://www.smith-nephew.com/Q205. If interested parties are unable to connect to the web, a listen-only service is available by calling 0800 559 3272 in the UK or 1866 239 0753 in the US. Analysts should contact Julie Allen on +44 (0) 20 7960 2254 or by email at julie.allen@smith-nephew.com for conference call details.

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* Unless otherwise specified as reported, all revenue increases throughout this document are underlying increases which adjust for the effects of currency translation, the acquisition of MMT in Q1 last year and the effect of two fewer sales days in the first quarter and one more sales day in the second quarter. See note 3.

** EPSA is stated before amortisation of acquisition intangibles. See note 2.

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Introduction

In the first half of the year we continued to pursue our strategy of operating in growing markets and in expanding the markets in which we operate. This strategy continues to deliver revenue growth in all businesses as we have seen in the first half of the year. A commentary on the financial and operating results for the second quarter and the half year follows below.

This is the second quarter that our results have been reported under International Financial Reporting Standards. Comparative figures have been restated and reconciliations from UK GAAP are provided in the appendices to this announcement.

Second Quarter Results

Underlying revenue growth in the quarter was 12%. Reported revenue growth in the quarter benefited from $^{1}/2$% due to translational currency movements and 1 $^{1}/2$% due to one extra sales day, resulting in reported second quarter revenue increasing by 14% to £351m.

Trading profit in the quarter was £70m, with margins improving to 20%. Interest income and finance costs netted out to £1m positive, taxation amounted to £21m and the share of after tax results of the BSN joint venture was £4 $^{1}/2$m, resulting in attributable profit before amortisation of acquisition intangibles of £54 $^{1}/2$m.

Earnings per share before amortisation of acquisition intangibles (EPSA) was 5.83p (29.15p per American Depositary Share, ADS), a 16% increase on the second quarter last year. A reconciliation of EPSA to reported earnings per share is given in note 2 to the accounts.

Orthopaedics

The orthopaedic market continues to exhibit strong growth and we again increased our market share, with revenue up by 18% relative to the second quarter last year. Revenue growth in the US was 22% and outside the US 14%. Sales pricing in reconstruction and trauma increased by approximately 4% globally, compared with a year ago.

In reconstruction our expanded global sales force generated growth in knee revenues of 20% (18% in the US and 21% outside the US) and hip revenues of 16% (13% in the US and 20% outside the US). OXINIUM◊ and minimal incision instruments continue to drive revenues globally, and BHR hip resurfacing is augmenting this outside the US.

US trauma revenues increased by 24%, well ahead of the market, benefiting from the establishment of a dedicated sales force in the US last year and the launch of the PERI-LOC◊ locking compression plate system in the first quarter this year. Overall trauma revenue growth was 13%. Revenues outside the US were flat and this is being addressed by the roll-out of our trauma sales strategy.

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Clinical Therapy revenues, comprising EXOGEN◊ ultrasound bone healing products and SUPARTZ◊ joint fluid therapy, benefited from further sales force investment and grew 42% compared with the same quarter last year.

Endoscopy

Endoscopy s revenue growth was 7%, with growth in the US slower, as expected, at 2% due to lower visualisation and digital operating room revenues in the US ahead of the launch of the 400 Series camera in June. Outside the US revenue growth was 13%.

Knee and shoulder repair revenues continued strongly, benefiting from new product introductions, with 23% growth. Visualisation and digital operating room revenues grew 3% and blade revenues grew 2%. Radio frequency, including spine, declined 6%, with radio frequency continuing to be impacted by the injunction over bi-polar products.

In order to improve further the competitive position and to lower the overall costs of production we will close one of our US manufacturing facilities. A margin improvement of around 1% should accrue to Endoscopy at the end of the programme in 2007. A £9m restructuring charge will be taken in the third quarter.

Advanced Wound Management

Advanced Wound Management revenues grew 6% compared to the second quarter last year. Outside the US revenue growth was in line with the market at 8%. Revenues inside the US declined by 4%, compared to a decline of 7% in Q1, reflecting continued lower contracted supplies of intermediate products in the US. The improvement reflects some stabilisation of third party distributor inventories, end user traced sales are growing at around 7%.

Our sales forces globally continue to concentrate on ALLEVYN◊ and ACTICOAT◊, achieving revenue growth of 14% and 33% respectively in the quarter. Our concentration on major accounts for DERMAGRAFT◊ ahead of the anticipated venous leg ulcer approval in the US has resulted in a small decline in its quarterly revenues.

Half Year Results

Underlying and reported revenue growth in the first half was 12%, as one fewer sales day was offset by the benefit from the acquisition of MMT in Q1 last year. Translational currency was neutral. Reported revenues were consequently £681m.

Trading profit in the half year was £136m, with margins 1% ahead of a year ago at 20%. Interest income and finance costs netted to £3m positive, taxation amounted to £42m and the share of the after tax results of the BSN joint venture was £8m, resulting in attributable profit before amortisation of acquisition intangibles of £105m. Attributable profit after amortisation was £102m.

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EPSA was 11.22p (56.10p per ADS) for the half year, an increase of 16% compared to the same period last year. Reported earnings per share were 10.88p (54.40p per ADS). A reconciliation of reported earnings per share to EPSA is provided in note 2 to the accounts.

Operating cash flow, defined as cash generated from operations less capital expenditure, was £39m. This is a trading profit to cash conversion ratio of 38%, before rationalisation and integration expenditure of £1m and £12m of funding of settlement payments to patients in respect of macrotextured revisions which are not being reimbursed by insurers, and compares with 41% a year ago.

An interim dividend of 2.10p per share (10.50p per ADS) will be paid on 11 November 2005 to shareholders on the register at the close of business on 21 October 2005. Having increased our dividend cover over recent years, this is an increase in the dividend of 10%.

Had our results been reported in US dollars translated at average rates of exchange, reported revenues and adjusted earnings per ADS would have been as follows:

	Second Quarter		Half Year	
Reported revenues	$ 643m	+15%	$ 1270m	+14%
Adjusted earnings per ADS	$ 0.54	+17%	$ 1.05	+18%

Outlook

The orthopaedic market continues to grow strongly, particularly in the US. We continue to take market share as we benefit from our sales force investment and new product flow. We expect Orthopaedics to maintain its first half revenue growth momentum and achieve growth of around 18% for the full year.

We expect Endoscopy to achieve revenue growth of around 8% for the full year. Wound Management should see its revenue growth improve across the second half, but we are reducing our previous guidance for revenue growth to around 6% for the full year.

Revenue growth should pick up slightly in the second half for the Group as a whole and translational currency (at today s rates) should add 1% - 2% to revenue for the full year. We expect trading margins to continue to improve from efficiency gains and approach 21% for the full year. Overall on an underlying basis, excluding the Endoscopy restructuring charge, we are well placed to achieve our underlying mid teens EPSA growth goal for the full year.

About us

Smith & Nephew is a global medical technology business, specialising in Orthopaedics, Endoscopy and Advanced Wound Management products. Smith & Nephew is a global leader in arthroscopy and advanced wound management and is one of the fastest growing global orthopaedics companies.

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Smith & Nephew is dedicated to helping improve people s lives. The company prides itself on the strength of its relationships with its surgeons and professional healthcare customers, with whom its name is synonymous with high standards of performance, innovation and trust. The company has over 8,500 employees and operates in 33 countries around the world generating annual sales of £1.25 billion.

Forward-Looking Statements

This press release contains certain forward-looking statements within the meaning of the US Private Securities Litigation Reform Act of 1995. In particular, statements regarding expected revenue growth and operating margins discussed under Outlook are forward-looking statements as are discussions of our product pipeline. These statements, as well as the phrases aim , plan , intend , anticipate , well-placed , believe , estimate , expect , target , consider and similar expressions, are generally intended to identify forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties and other important factors (including, but not limited to, the outcome of litigation, claims and regulatory approvals) that could cause the actual results, performance or achievements of Smith & Nephew, or industry results, to differ materially from any future results, performance or achievements expressed or implied by such forward-looking statements. Please refer to the documents that Smith & Nephew has filed with the U.S. Securities and Exchange Commission under the U.S. Securities Exchange Act of 1934, as amended, including Smith & Nephew s most recent annual report on Form 20F, for a discussion of certain of these factors.

All forward-looking statements in this press release are based on information available to Smith & Nephew as of the date hereof. All written or oral forward-looking statements attributable to Smith & Nephew or any person acting on behalf of Smith & Nephew are expressly qualified in their entirety by the foregoing. Smith & Nephew does not undertake any obligation to update or revise any forward-looking statement contained herein to reflect any change in Smith & Nephew s expectation with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

◊ Trademark of Smith & Nephew. Certain names registered at the US Patent and Trademark Office.

SMITH & NEPHEW plc

2005 QUARTER TWO AND HALF YEAR RESULTS

Unaudited Group Income Statement for the 3 months and 6 months to 2 July 2005

3 Months 2004 [A] £m	3 Months 2005 £m		Notes	6 Months 2005 £m	6 Months 2004 [A] £m
307.2	350.9	**Revenue**	3	681.1	609.2
(82.5)	(91.3)	Cost of goods sold		(173.4)	(165.3)
(148.8)	(173.4)	Selling, general and administrative expenses		(340.0)	(296.0)
(16.6)	(16.0)	Research and development expenses		(32.1)	(32.6)
59.3	70.2	**Trading profit**	3	135.6	115.3
(1.2)	(1.6)	Amortisation of acquisition intangibles	5	(3.2)	(1.6)
58.1	68.6	Profit before tax, financing & share of results of the joint venture		132.4	113.7
3.0	3.7	Interest receivable		7.9	9.9
(2.1)	(2.9)	Interest payable		(5.4)	(7.7)
(0.5)	0.5	Other finance income/(costs)		0.5	(0.9)
58.5	69.9	**Profit before tax and share of results of the joint venture**		135.4	115.0
(17.0)	(21.3)	Taxation	6	(41.3)	(33.6)
41.5	48.6	**Profit before share of results of the joint venture**		94.1	81.4
4.1	4.4	Share of results of the joint venture	7	7.8	7.5
45.6	53.0	**Attributable profit**		101.9	88.9
		Earnings per share	2		
4.88p	5.66p	Basic		10.88p	9.52p
4.85p	5.60p	Diluted		10.79p	9.46p

[A] As restated for the effect of the transition to International Financial Reporting Standards (IFRS) see Note 1.

Unaudited Group Statement of Recognised Income & Expense for the 3 months and 6 months to 2 July 2005

3 Months 2004 [A] £m	3 Months 2005 £m		6 Months 2005 £m	6 Months 2004[A] £m
45.6	53.0	Attributable profit	101.9	88.9

	2.4	Translation differences on foreign currency net investments	2.4	(0.2)
	5.0	Gains on cash flow hedges	10.0	
	(21.6)	Actuarial losses on defined benefit plans	(21.6)	
	7.2	Taxation on items taken directly to equity	7.2	
	(7.0)	Net expense recognised directly in equity	(2.0)	(0.2)
		Restatement for the effects of IAS 32 and 39 [B]	(5.5)	
45.6	46.0	Total recognised income and expense	94.4	88.7

[B] As detailed in Note 1, on 1 January 2005 the balance sheet was restated for the effects of IAS 32 and 39.

SMITH & NEPHEW plc

2005 QUARTER TWO AND HALF YEAR RESULTS continued

Unaudited Group Balance Sheet as at 2 July 2005

31 Dec 2004 [A, B] £m		Notes	2 July 2005 £m	3 July 2004[A] £m
	ASSETS			
	Non-current assets			
290.3	Property, plant and equipment		326.2	276.1
375.3	Intangible assets		392.7	376.5
4.9	Investments		5.6	4.9
120.7	Investment in joint venture		122.8	118.9
25.6	Non-current receivables		0.8	22.4
67.6	Deferred tax assets		80.9	59.0
884.4			929.0	857.8
	Current assets			
284.9	Inventories		344.8	264.2
320.2	Trade and other receivables		335.1	309.1
32.6	Cash and bank		53.9	25.1
637.7			733.8	598.4
1,522.1	**TOTAL ASSETS**		1,662.8	1,456.2
	EQUITY AND LIABILITIES			
	Equity attributable to equity holders of the parent			
114.5	Called up equity share capital		114.7	114.3
159.6	Share premium account		164.1	156.0
(4.2)	Own shares		(2.2)	(2.5)
1.4	Other reserves		6.0	1.1
430.7	Retained earnings		492.5	406.0
702.0	Total equity	9	775.1	674.9
	Non-current liabilities			
152.6	Long-term borrowings		116.6	209.6
146.8	Retirement benefit obligation		165.0	137.2
15.8	Other payables due after one year		4.4	