

SMITH & NEPHEW PLC  
Form 6-K  
May 03, 2012

**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**

May 3, 2012

Commission File Number 001-14978

**SMITH & NEPHEW plc**

(Registrant's name)

15 Adam Street

London, England WC2N 6LA

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(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  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

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

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

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

Smith & Nephew plc

INDEX TO EXHIBITS

Item 1. Press release entitled **Smith & Nephew First Quarter 2012 Results** , dated May 3, 2012.

**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)

By: /s/ Susan Henderson  
Susan Henderson  
Company Secretary

Date: May 3, 2012

## Item 1

**Smith & Nephew First Quarter 2012 Results****3 May 2012**

Smith & Nephew plc (LSE: SN, NYSE: SNN), the global medical technology business, announces its results for the first quarter ended 31 March 2012.

	31 Mar 2012 \$m	3 months* to Underlying change %	2 Apr 2011 \$m
Revenue <sup>1</sup>	1,079	3	1,055
Trading profit <sup>2</sup>	252	5	241
Operating profit <sup>2</sup>	236		231
Trading profit margin (%)	23.3	50bps	22.8
EPSA (cents) <sup>3</sup>	19.5		18.4
EPS (cents)	18.0		17.5
Divisional revenue <sup>1</sup>			
Advanced Surgical Devices global	839	3	823
Advanced Wound Management global	240	5	232

\* Q1 2012 comprised 64 trading days (2011 - 64 trading days)

**Q1 Financial Highlights**

Revenue \$1,079 million, up 3% on an underlying basis

Trading profit was \$252 million, up 5% on an underlying basis

Trading profit margin of 23.3%, up 50 bps

EPSA was up 6% to 19.5¢

Net debt at \$28 million, down from \$351 million a year ago

Strong revenue, profit and trading profit margin performance from both Advanced Surgical Devices and Advanced Wound Management

Continued good growth in Knee Implants and momentum in Negative Pressure Wound Therapy

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Further progress delivering against each of our five strategic priorities

**Commenting on Q1, Olivier Bohuon, Chief Executive Officer of Smith & Nephew, said:**

Smith & Nephew has had a good first quarter. We grew revenue, increased profit and improved our trading profit margin. We saw the first results of our actions to make Smith & Nephew more fit and effective.

2012 is a critical year for implementing our new strategic priorities. Our plans to progress the structural changes, additional investments and, of course, greater efficiencies, are now underway. Throughout Smith & Nephew, at every level, there is a clear sense of direction, as we work to reshape the Group for future growth.

**News**

**Analyst presentation and conference call**

An analyst presentation and conference call to discuss Smith & Nephew's first quarter and preliminary results will be held at 8.30am GMT/3.30am EST today, 3 May. This will be broadcast live on the company's website and will be available on demand shortly following the close of the call at <http://www.smith-nephew.com/Q112>. A podcast will also be available at the same address. If interested parties are unable to connect to the web, a listen-only service is available by calling +44(0)20 3364 5381 (passcode 6423551) in the UK or +1646 254 3365 (passcode 6423551) in the US. Analysts should contact Jennifer Heagney on +44 (0) 20 7960 2255 or by email at [jennifer.heagney@smith-nephew.com](mailto:jennifer.heagney@smith-nephew.com) for conference details.

**Notes**

- 1 Unless otherwise specified as reported all revenue increases/decreases throughout this document are underlying increases/decreases after adjusting for the effects of currency translation. See note 4 to the financial statements for a reconciliation of these measures to results reported under IFRS.
- 2 A reconciliation from operating profit to trading profit is given in note 5 to the financial statements. The underlying increase in trading profit is the increase in trading profit after adjusting for the effects of currency translation.
- 3 Adjusted earnings per ordinary share (EPSA) growth is as reported, not underlying, and is stated before restructuring and rationalisation costs, amortisation of acquisition intangibles and taxation thereon. See note 2 to the financial statements.
- 4 All numbers given are for the quarter ended 31 March 2012 unless stated otherwise.
- 5 References to market growth rates are estimates generated by Smith & Nephew based on a variety of sources.

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## First Quarter Results

Smith & Nephew delivered a good financial performance in the first quarter of 2012, increasing revenue to \$1,079 million, representing 3% growth on an underlying and 2% on a reported basis year-on-year.

Both our Advanced Surgical Devices ( ASD ) and Advanced Wound Management ( AWM ) global divisions grew revenue, profit and trading profit margins in the quarter.

Product highlights included 6% growth in revenue from our global Knee Implant franchise and another strong quarter from our Negative Pressure Wound Therapy ( NPWT ) portfolio. We believe that we have now taken around 20% of the European NPWT market.

Consistent with our strategic priorities, we are now providing geographic growth data for both our Established Markets (US, Europe, Canada, Japan, Australia and New Zealand), where we increased revenue by 2% in the quarter, and our Emerging and International Markets, which were 12% ahead. In the BRIC countries we delivered revenue growth in excess of 20%.

Our trading profit was \$252 million, up 5% from \$241 million in 2011. This was ahead of expectations, resulting in a Group trading profit margin of 23.3%, 50 bps ahead of last year. This improvement is in part a reflection of the actions we are taking to reshape Smith & Nephew beginning to take effect, although there is also a benefit from some cost phasing which will reverse in Q2.

The net interest charge for the period was \$2 million. The tax rate for the quarter, and estimated effective rate for the full year, was 30.1% on profit before restructuring and rationalisation costs and amortisation of acquisition intangibles. Adjusted attributable profit of \$174 million is before these items and taxation thereon.

Adjusted earnings per share was 19.5¢ (97.5¢ per American Depositary Share, ADS ) compared to 18.4¢ last year. Basic earnings per share was 18.0¢ (90.0¢ per ADS) (2011: 17.5¢).

Trading cash flow (defined as cash generated from operations less capital expenditure, but before restructuring and rationalisation costs and legal settlement) was \$192 million in the quarter, reflecting a trading profit to cash conversion ratio of 76%. Net debt decreased to \$28 million from \$351 million a year ago.

As previously announced, in February we reached settlements with the U.S. Securities and Exchange Commission and U.S. Department of Justice in connection with their investigation of the medical device industry, and paid \$22 million in fines and profit disgorgement. The Group had previously provided for this payment in Q4 2011.

## Progress Delivering Against Strategic Priorities

In our Q4 and Full Year statement in February we gave details of the actions we had taken in 2011 to deliver against our strategic priorities and reshape Smith & Nephew to be fit and effective for the future. We have made further progress in the first quarter of 2012.

For instance, we continue to invest in improving efficiency, and have commenced a significant Process Optimisation project in Europe. Our operations here have a diverse range of processes and IT systems. This multi-year project will develop common processes across our business, supported by a single transactional and reporting system, to enable faster, and better informed, decision making.

The Group also invested further to support our strategic priority to be market leaders across the BRIC nations. This included strengthening our Emerging Markets team with the appointment of a new General Manager for Brazil and senior operations and



logistics personnel, and we established a new headquarters for our Emerging Markets and International Markets teams in Dubai.

We opened a new innovation and training centre in Memphis, which we will use to deliver best-in-class surgeon training programmes. This is a multi-disciplinary facility, including implant, trauma and sports medicine, reflecting our belief that there is much to be gained by more closely sharing learning and innovation between specialisms. We also enjoyed a successful American Academy of Orthopaedic Surgeons Annual Meeting in San Francisco, launching a number of new products and successfully demonstrating the breadth of our portfolio to a wide range of customers.

Finally, the Group has also been delivering on our priority to supplement and support organic growth through acquisition. In the period we added a number of small complementary technologies such as the acquisition of biomechanical company LifeModeler, whose software shortens the time taken to develop new products using a virtual model of the human body. Similarly, the purchase of the ADERMA<sup>®</sup> Dermal Pads range has given us a leading position in the UK market to treat pressure ulcers. We are already enjoying good success driving sales of this complementary product alongside our existing advanced wound management portfolio.

### **Advanced Surgical Devices global**

Smith & Nephew's ASD global business encompasses the following product franchises:

Knee Implants

Hip Implants

Sports Medicine Joint Repair

Arthroscopic Enabling Technologies

Trauma

Other ASD, including Clinical Therapies

ASD delivered total revenue of \$839 million across all of these franchises in the first quarter of 2012. This was 3% ahead of the same period last year (2011: \$823 million). Despite a flat performance in the US, we made progress growing revenue in our other Established Markets by 4%, with the UK, France and Japan all performing well. In the higher growth Emerging and International Markets our revenue was up 13%.

Trading profit rose to \$202 million (2011: \$194 million) and the trading profit margin of 24.1% was up 50 bps year-on-year (2011: 23.6%). This was partly due to the early benefits of our structural efficiency programmes. It was also as a result of the phasing of some costs and we expect this spending to occur in Q2, resulting in a reverse effect on the trading profit margin next quarter.

Our **Knee Implant** franchise performed well globally, growing 6% on the comparable quarter in 2011 and outperforming the market which grew at 3%. In the US, our revenue increased by 3%. This was ahead of the market rate of 2%, with a strong contribution from the LEGION<sup>®</sup> Revision Knee System and good continued growth, albeit slowing relative to last year, from VERILAST<sup>®</sup> bearing technology and VISIONAIRE<sup>®</sup> Patient Matched Instrumentation Sets.

Beyond the US, we strongly outperformed the market, pushing revenues up 9%, against a market growth rate of 5%. Australia and New Zealand delivered a notable improvement against a weak comparator, and the Emerging and International Markets performed well.

Revenue from our global **Hip Implant** franchise was down -2%. This was largely a result of continuing headwinds in the metal-on-metal total hip replacement sector. Sales of our BIRMINGHAM HIP<sup>®</sup> Resurfacing System ( BHR ) continued to suffer from association, despite its strong track record demonstrated by many independent sources of data which have proved its



performance over more than ten years. In traditional total hip implants we generated strong double-digit growth in revenue from products featuring our VERILAST bearing technology. We also launched the POLARCUP<sup>®</sup> Dual Mobility Hip System in the US. This is a proven solution for patients susceptible to dislocation and needing enhanced stability.

Like-for-like price pressure across Hip and Knee Implants remained similar to previous quarters, which was partially offset through mix gains.

In **Sports Medicine Joint Repair** we grew revenues by 7% in the quarter. Our premium FAST-FIX<sup>®</sup> 360 Meniscal Repair System is performing well, being adopted by many new customers. We continued to build upon our strong position in anterior cruciate ligament ( ACL ) repair, introducing the CLANCY<sup>®</sup> Flexible Drill System and the ACUFEX PINPOINT<sup>®</sup> Anatomic ACL Guide System in the period. We also added to our innovative shoulder repair portfolio, introducing the HEALICOIL<sup>®</sup> PK suture anchor, whose design offers greater pullout strength than its competitors.

Our **Arthroscopic Enabling Technologies** franchise, which consists primarily of our core resection and camera products, delivered a 1% increase in revenue as we continued the roll-out of our innovative DYONICS<sup>®</sup> PLATINUM range of specialty blades.

Revenue from our **Trauma** franchise was down -1%. This would have been +2% discounting the continuing headwind from the previously disclosed loss of US royalties. The unusually mild US winter contributed to reduced procedures, but even so, we are not happy with this performance and the new Trauma management is working to improve this.

Our Other ASD category predominantly comprises the Clinical Therapies business. Clinical Therapies grew revenue by 6% to \$58 million in the quarter and we remain on track to complete the formation of Bioventus LLC, the venture with Essex Woodlands to fund its future development, in Q2.

#### **Advanced Wound Management global**

We continued to deliver strong underlying growth in **Advanced Wound Management** globally, with revenue up 5% to \$240 million in the quarter, and again outperformed the estimated global market growth rate of 3%.

We performed well in the US, with a 14% increase in revenue mainly driven by our NPWT portfolio. The Emerging and International markets also did well with growth of 12%. Our non-US Established Markets grew 1% which reflects the reversal of some wholesaler stocking last quarter. Exudate Management was flat and Infection Management grew by 6% as conditions across most markets remained subdued.

We delivered a good trading profit of \$50 million (2011: \$47 million) and trading profit margin of 20.8%, up 70 bps year-on-year (2011: 20.1%). This margin improvement was principally driven by increased volumes and our efficiency programmes.

Our NPWT portfolio had another good quarter, and we have now taken around 20% of the European market and continue to deliver strong revenue growth across all regions. We launched PICO<sup>®</sup> in the US at the start of the quarter. It is receiving excellent customer feedback, and is progressing well through the relatively long hospital adoption cycle.

We added a number of innovative wound product enhancements during the period. We also acquired the ADERMA Dermal Pads range, and have had good early success marketing these leading pressure relieving devices through our existing customer channels.

## Outlook

We are performing in-line with our expectations and our guidance for the full year, provided last quarter, is unchanged. As stated, the phasing of some costs, which has had a positive impact on trading profit margin in Q1, is likely to have the opposite effect on the Q2 trading profit margin.

## About Us

Smith & Nephew is a global medical technology business dedicated to helping improve people's lives. With leadership positions in Orthopaedic Reconstruction, Advanced Wound Management, Sports Medicine, Trauma and Clinical Therapies, Smith & Nephew has almost 11,000 employees and a presence in more than 90 countries. Annual sales in 2011 were nearly \$4.3 billion. Smith & Nephew is a member of the FTSE100 (LSE: SN, NYSE: SNN).

## Forward-looking Statements

*This document may contain forward-looking statements that may or may not prove accurate. For example, statements regarding expected revenue growth and trading margins, market trends and our product pipeline are forward-looking statements. Phrases such as "aim", "plan", "intend", "anticipate", "well-placed", "believe", "estimate", "expect", "target", "consider" and similar expressions are generally intended to identify forward-looking statements. Forward-looking statements involve known and unknown risks, uncertainties and other important factors that could cause actual results to differ materially from what is expressed or implied by the statements. For Smith & Nephew, these factors include: economic and financial conditions in the markets we serve, especially those affecting health care providers, payors and customers; price levels for established and innovative medical devices; developments in medical technology; regulatory approvals, reimbursement decisions or other government actions; product defects or recalls; litigation relating to patent or other claims; legal compliance risks and related investigative, remedial or enforcement actions; strategic actions, including acquisitions and dispositions, our success in integrating acquired businesses, and disruption that may result from changes we make in our business plans or organisation to adapt to market developments; and numerous other matters that affect us or our markets, including those of a political, economic, business or competitive nature. 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 20-F, for a discussion of certain of these factors.*

*Any forward-looking statement is based on information available to Smith & Nephew as of the date of the statement. All written or oral forward-looking statements attributable to Smith & Nephew are qualified by this caution. Smith & Nephew does not undertake any obligation to update or revise any forward-looking statement to reflect any change in circumstances or in Smith & Nephew's expectations.*

<sup>a</sup> Trademark of Smith & Nephew. Certain marks registered US Patent and Trademark Office.

## SMITH &amp; NEPHEW plc

## 2012 QUARTER ONE RESULTS

## Unaudited Group Income Statement for the three months to 31 March 2012

	Notes	2012 \$m	2011 \$m
<b>Revenue</b>	4	1,079	1,055
Cost of goods sold		(271)	(276)
<b>Gross profit</b>		808	779
Selling, general and administrative expenses		(529)	(508)
Research and development expenses		(43)	(40)
<b>Operating profit</b>	5	236	231
Interest receivable		1	1
Interest payable		(3)	(3)
Other finance costs		(1)	(1)
<b>Profit before taxation</b>		233	228
Taxation	8	(72)	(72)
<b>Attributable profit (A)</b>		161	156
<b>Earnings per share (A)</b>	2		
Basic		18.0¢	17.5¢
Diluted		17.9¢	17.4¢

## Unaudited Group Statement of Comprehensive Income for the three months to 31 March 2012

	2012 \$m	2011 \$m
<b>Attributable profit (A)</b>	161	156
Other comprehensive income:		
Translation adjustments	50	36
Net losses on cash flow hedges	(1)	(3)
Actuarial gains on defined benefit pension plans	48	36
Taxation on items taken directly to equity	(15)	(10)
<b>Other comprehensive income for the period, net of tax</b>	82	59
<b>Total comprehensive income for the period (A)</b>	243	215

A Attributable to the equity holders of the parent and wholly derived from continuing operations.

## SMITH &amp; NEPHEW plc

## 2012 QUARTER ONE RESULTS (continued)

## Unaudited Group Balance Sheet as at 31 March 2012

31 Dec

2011 \$m		Notes	31 Mar 2012 \$m	2 Apr 2011 \$m
<b>ASSETS</b>				
<b>Non-current assets</b>				
783	Property, plant and equipment		780	800
1,096	Goodwill		1,117	1,117
423	Intangible assets		421	424
4	Other financial assets		4	10
13	Investment in associates		13	13
	Retirement benefit assets		14	
223	Deferred tax assets		214	217
2,542			2,563	2,581
<b>Current assets</b>				
859	Inventories		888	936
1,037	Trade and other receivables		1,051	1,017
184	Cash and bank	11	254	256
2,080			2,193	2,209
125	Assets held for sale	10	128	
4,747	<b>TOTAL ASSETS</b>		4,884	4,790
<b>EQUITY AND LIABILITIES</b>				
<b>Equity attributable to equity holders of the parent</b>				
191	Share capital		191	191
413	Share premium		427	405