

SMITH & NEPHEW PLC
Form 6-K
July 27, 2017

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

July 27, 2017

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

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

Edgar Filing: SMITH & NEPHEW PLC - Form 6-K

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 Second Quarter and First Half 2017 Results** , dated July 27, 2017.

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: July 27, 2017

By: /s/ Susan Swabey
Susan Swabey
Company Secretary

Smith & Nephew Second Quarter and First Half 2017 Results

Improved execution with revenue growth and trading profit margin on-track; full year guidance unchanged

27 July 2017

Smith & Nephew plc (LSE:SN, NYSE:SNN) results for second quarter and first half ended 1 July 2017:

	1 July 2017 \$m	Reported 2 July 2016 \$m	Reported growth	1 July 2017 \$m	Trading ² 2 July 2016 \$m	Underlying growth
Second Quarter Results¹						
Revenue	1,194	1,191	0%	1,194	1,191	3%
First Half Results¹						
Revenue	2,336	2,328	0%	2,336	2,328	3%
Operating profit	414	357				
Trading profit				493	483	
Operating/trading profit margin (%)	17.7	15.3		21.1	20.8	
EPS/ EPSA (cents)	37.0	27.0		43.0	37.4	
Second Quarter Highlights¹						

Q2 revenue of \$1,194 million reflects 0% reported and 3% underlying growth. Reported growth rate includes -1% FX headwind and -2% impact of 2016 disposal of Gynaecology

Sustained recovery in Emerging Markets with revenue up 13% in the quarter

Strong growth in Knee Implants and Advanced Wound Devices

Expansion of NAVIO^a handheld robotics platform with launch of Total Knee application

First Half Highlights¹

H1 revenue of \$2,336 million reflects 0% reported and 3% underlying growth. Reported growth rate includes -1% FX headwind and -2% impact of 2016 disposal of Gynaecology

Edgar Filing: SMITH & NEPHEW PLC - Form 6-K

H1 operating profit of \$414 million, with operating profit margin of 17.7%, an increase of 240bps

H1 trading profit of \$493 million, with trading profit margin of 21.1%, an increase of 30bps

Strong growth in EPS (up 37%) and EPSA (up 15%) reflecting one-off tax benefit along with improvements in trading profit margin and tax rate

Tax rate on trading is expected to reduce to around 22% in FY 2017 and around 25% thereafter

Cash generated from operating activities of \$438 million (H1 2016: \$380 million). Trading cash flow of \$327 million (H1 2016: \$255 million) with trading profit to cash conversion ratio of 66%

Interim dividend of 12.3¢ per share, in-line with policy (2016: 12.3¢)

Olivier Bohuon, Chief Executive Officer of Smith & Nephew, said:

I am pleased with the first half of 2017, where our focus on execution is delivering improvements in performance at the top and bottom line. In particular, we have returned the Emerging Markets to double-digit growth and driven strong returns from disruptive innovations in areas such as Knee Implants and Negative Pressure Wound Therapy.

We are taking good momentum into the second half and I am confident that we are on-track to deliver our full year revenue and trading margin guidance, which is unchanged. We continue to expect underlying revenue growth of 3-4% and a 20-70bps improvement in trading profit margin for the full year.

Our new products, such as the Total Knee Application on our NAVIO robotics-assisted surgery system, position us well for further progress. I am also confident that our pipeline of innovation and improved execution will underpin our medium-term ambition to consistently outgrow our markets whilst building trading profit margin.

Analyst conference call

An analyst meeting and conference call to discuss Smith & Nephew's second quarter trading and first half 2017 results for the period ended 1 July 2017 will be held today, Thursday 27 July at 9:00am BST / 4:00am EDT. This will be webcast live and available for replay shortly after. The details can be found on the Smith & Nephew website at www.smith-nephew.com/results.

Enquiries

Investors

Ingeborg Øie +44 (0) 20 7960 2285
Smith & Nephew

Media

Charles Reynolds +44 (0) 20 7401 7646
Smith & Nephew

Ben Atwell / Matthew Cole +44 (0) 20 3727 1000
FTI Consulting

Notes

1. Unless otherwise specified as reported all revenue growth throughout this document is underlying after adjusting for the effects of currency translation and including the comparative impact of acquisitions and excluding disposals. All percentages compare to the equivalent 2016 period.

Underlying revenue growth is used to compare the revenue in a given period to the comparative period on a like-for-like basis. Underlying revenue growth reconciles to reported revenue growth, the most directly comparable financial measure calculated in accordance with IFRS, by making adjustments for the effect of acquisitions and disposals and the impact of movements in exchange rates (currency impact), as described below.

The effect of acquisitions and disposals measures the impact on revenue from newly acquired business combinations and recent business disposals. This is calculated by comparing the current year, constant currency actual revenue (which include acquisitions and exclude disposals from the relevant date of completion) with prior year, constant currency actual revenue, adjusted to include the results of acquisitions and exclude disposals for the corresponding period in the prior year.

Currency impact measures the increase/decrease in revenue resulting from currency movements on non-US Dollar sales and is measured as the difference between: 1) the increase/decrease in current year revenue translated into US Dollars at the current year average rate and the prior year revenue translated at the prior year average rate; and 2) the increase/decrease being measured by translating current and prior year revenue into US Dollars using a constant fixed rate.

2. Certain items included in trading results , such as trading profit, trading profit margin, trading cash flow, EPSA and underlying growth are non-IFRS financial measures. The non-IFRS financial measures reported in this announcement are explained in Note 8 and are reconciled to the most directly comparable financial measure prepared in accordance with IFRS. Reported results represent IFRS financial measures as shown in the Condensed Consolidated Interim Financial Statements.

Smith & Nephew Second Quarter Trading and First Half 2017 Results

Second Quarter 2017 Trading Update

Our second quarter revenue was \$1,194 million (2016: \$1,191 million), flat on a reported basis including a foreign exchange headwind of -1% and the -2% effect of the disposal of Gynaecology in August 2016. Excluding these factors, underlying revenue growth was up 3% in the quarter, in-line with guidance.

The second quarter 2017 comprised 63 trading days, one fewer than in the same period of 2016, which typically impacts our surgical businesses more than our Advanced Wound Management businesses and the Established Markets more than the Emerging Markets.

Unless otherwise specified as reported all revenue growth rates throughout this document are underlying increases/decreases after adjusting for the effects of currency translation and including the comparative impact of acquisitions and excluding disposals. All percentages compare to the equivalent 2016 period.

Second Quarter Consolidated Revenue Analysis

Smith & Nephew trading results for the second quarter ended 1 July 2017:

	1 July 2017 \$m	2 July 2016 \$m	Reported growth %	Underlying Growth ⁽ⁱ⁾ %	Acquisitions /disposals %	Currency impact %
Consolidated revenue by franchise						
Sports Medicine, Trauma & Other	480	487	-2	3	-4	-1
Sports Medicine Joint Repair	152	147	4	5		-1
Arthroscopic Enabling Technologies	151	160	-6	-4		-2
Trauma & Extremities	127	119	7	7		
Other Surgical Businesses	50	61	-19	11	-29	-1
Reconstruction	396	391	1	2		-1
Knee Implants	246	238	3	4		-1
Hip Implants	150	153	-2	-1		-1
Advanced Wound Management	318	313	1	3		-2
Advanced Wound Care	177	177		2		-2
Advanced Wound Bioactives	92	93	-1			-1
Advanced Wound Devices	49	43	12	14		-2
Total	1,194	1,191		3	-2	-1
Consolidated revenue by geography						
US	582	582		2	-2	
Other Established Markets ⁽ⁱⁱ⁾	408	429	-5	-1		-4

Emerging Markets	204	180	13	13		
Total	1,194	1,191		3	-2	-1

(i) Underlying growth is defined in Note 1 on page 2

(ii) Other Established Markets are Europe, Canada, Japan, Australia and New Zealand

Regional performance

Revenue grew 1% in the **Established Markets** in the quarter, with the US, our largest market, up 2%. In Europe we continue to make progress, although headline growth was held back by the impact of the Easter holiday which fell in the first quarter last year.

Performance in the **Emerging Markets** was good, with revenue up 13%. China maintained the improved dynamic seen last quarter and growth across our other Emerging Markets countries remained strong.

Q2 2017 Franchise Highlights

Sports Medicine Joint Repair delivered 5% revenue growth in the quarter, with a good performance from our shoulder repair portfolio. In **Arthroscopic Enabling Technologies** revenue was down -4% as the softness in resection continued. The roll-out of our LENS[®] visualisation system is proceeding at pace and the introduction of the WEREWOLF[®] COBLATION[®] system is accelerating. We expect growth from these new products to increasingly offset the drag from legacy resection.

Trauma & Extremities delivered strong growth, with revenue up 7% in the quarter. We continued to build good momentum behind our TRIGEN[®] INTERTAN[®] hip fracture system and also benefitted from a tender order in the Middle East.

Our **Other Surgical Businesses** franchise delivered revenue growth of 11% in the quarter. This included another strong quarter from our Ear, Nose & Throat (ENT) business and continued strong demand for our hand-held robotics NAVIO Surgical System. During the quarter we launched the total knee arthroplasty (TKA) application on NAVIO. Total knees comprise 80% of all knee replacement surgeries globally.

Knee Implants delivered another good quarter, with revenue up 4%. Our JOURNEY II Total Knee System continued to drive growth, and new additions to the LEGION Revision Knee System started to contribute. Revenue from our **Hip Implants** franchise was down -1%. We expect the new REDAPT[®] Revision System, where we launched a Monolithic Sleeved variant in the quarter, and the POLARSTEM[®] Cementless Stem System, to contribute more to growth in the second half of 2017.

Advanced Wound Care delivered 2% revenue growth. This included strong double-digit growth in the US, led by the ALLEVYN[®] range of foam dressings and our comprehensive pressure ulcer prevention and treatment proposition. We returned China to positive growth, as expected, but continued to see softness in Europe, as previously reported.

Advanced Wound Bioactives delivered an improved performance. Whilst SANTYL[®] returned to growth, OASIS[®] remained a headwind, meaning overall Q2 revenue growth for the franchise was flat. We continue to expect SANTYL to drive positive revenue growth in the second half of the year.

Advanced Wound Devices delivered good revenue growth of 14% in the quarter. This was led by our disposable negative pressure wound therapy (NPWT) device PIC[®], which continued to perform strongly in the quarter.

First Half 2017 Review of Strategic Priorities

We entered 2017 confident that we had the right structure and capability in place and focused on improving execution across the Group. We have a clear set of actions underway in areas such as commercial and R&D that are starting to deliver benefits to the top and bottom line. We take good momentum into the second half of 2017.

Group revenue for the first half was \$2,336 million (H1 2016: \$2,328 million), flat on a reported basis (after -1% FX and -2% impact of the Gynaecology disposal) and up 3% on an underlying basis. There was one fewer sales day in the first half of 2017 over 2016.

In the **Established Markets** we delivered 1% underlying revenue growth in the first half. Revenue in our US business grew 2%, driven by continued strong performance in areas such as Knee Implants and Advanced Wound Care and Advanced Wound Devices. Growth in our Other Established Markets was

flat. In Europe we are making progress improving our execution, although the slight headwinds seen last year in some European countries continued during the first half.

In the **Emerging Markets** we delivered 12% revenue growth in the first half, having successfully addressed the issues seen in China last year and returned the Middle East to growth. As a matter of course, we expect to see some volatility in the Emerging Markets, as flagged previously, but this much improved performance is in-line with where we see the medium term prospects for this increasingly important segment of Smith & Nephew's business.

We are beginning to benefit from a suite of exciting new products as we deliver on our strategic priority to **innovate for value**. In robotics, NAVIO is a unique and compelling proposition, and we are successfully extending its indications, and taking it to new geographies, such as India. Our portfolio in Sports Medicine, Negative Pressure Wound Therapy and Reconstruction are all benefiting from new products that address the unmet needs of our customers. Our R&D organisation has been strengthened with new leadership and we have an exciting pipeline of future disruptive innovation nearing commercialisation.

We continue to **simplify and improve our operating model**. Our new sales force excellence and global pricing teams, established at the start of the year, are fully resourced and working to enhance our commercial execution. We continue to believe that there are further opportunities to drive performance and increase efficiency across the Group, including in the commercial organisation, R&D, operations, supply chain and inventory management.

Whilst our focus in the first half of 2017 has been on improving our execution across our existing business, we have made a number of strategic agreements that give us access to new technologies. These include Leaf Healthcare, a developer of a unique wireless patient monitoring system for pressure ulcer/injury prevention and MolecuLight i:X™, a handheld point-of-care imaging device that uses fluorescence imaging to display potentially harmful concentrations of bacteria in wounds in real-time. In recent years we have undertaken a number of successful **acquisitions** and we continue to seek further opportunities to strengthen our technology and product portfolio and Emerging Markets business.

First Half 2017 Consolidated Analysis

Smith & Nephew results for the first half ended 1 July 2017:

	Half year 2017 \$m	Half year 2016 \$m	Growth %
Revenue	2,336	2,328	0
Operating profit	414	357	16
Acquisition and disposal related items	2	6	
Restructuring and rationalisation costs		35	
Amortisation and impairment of acquisition intangibles	65	67	
Legal and other	12	18	
Trading profit (non-IFRS)	493	483	2
	¢	¢	
Earnings per share EPS	37.0	27.0	37

Edgar Filing: SMITH & NEPHEW PLC - Form 6-K

Acquisition and disposal related items	0.2	0.6	
Restructuring and rationalisation costs		3.2	
Amortisation and impairment of acquisition intangibles	4.7	5.1	
Legal and other	1.1	1.5	
Adjusted Earnings per share EPSA	43.0	37.4	15

First Half 2017 Analysis

Reported operating profit of \$414 million (H1 2016: \$357 million) is after integration and acquisition costs, as well as restructuring and rationalisation costs, amortisation of acquisition intangibles and legal and other items incurred in the first half (see Note 8 to the Interim Financial Statements).

Trading profit was \$493 million in the first half (H1 2016: \$483 million), and the trading profit margin was 21.1% (H1 2016: 20.8%), up 30bps, in-line with guidance.

The net interest charge within reported results was \$25 million (H1 2016: \$24 million).

The tax rate on reported results for the 2017 half year was 15.4% compared to 26.3% for the 2016 half year reflecting the lower tax rate on trading results (see Note 8 for a reconciliation between tax rate on trading and reported results). The tax rate on trading results for the 2017 first half was 19.0% compared to 26.3% for the first half of 2016, with the reduction mainly due to a one-off benefit following the conclusion of a US tax audit.

Basic earnings per share (EPS) was up 37% at 37.0¢ (74.0¢ per ADS) (H1 2016: 27.0¢). Adjusted earnings per share (EPSA) was up 15% at 43.0¢ (86.0¢ per ADS) (H1 2016: 37.4¢) primarily reflecting the one-off tax benefit, along with improvements in trading profit margin and tax rate on trading.

Cash generated from operations was \$438 million in the first half (H1 2016: \$380 million), reflecting the higher profit-before-tax in the period. Trading cash flow was \$327 million (H1 2016: \$255 million) (see Note 8 for a reconciliation between cash generated from operating activities and trading cash flow). The trading profit to cash conversion ratio was 66% (H1 2016: 53%).

Interim Dividend

Consistent with previous periods, the interim dividend is set by a formula and is equivalent to 40% of the total dividend for the previous year. The interim dividend for the first half of 2017 is therefore 12.3¢ per share (24.6¢ per ADS), in-line with last year. This equates to 9.5 pence per share at prevailing exchange rates as of 21 July 2017. The interim dividend will be paid on 1 November 2017 to shareholders on the register at the close of business on 6 October 2017.

Outlook

Smith & Nephew is on-track to deliver on its full year revenue and trading margin guidance, which is unchanged. We continue to expect underlying revenue growth in the 3-4% range and a 20-70bps improvement in trading profit margin in 2017. On a reported basis, we expect 2017 revenue growth to be in the range of 2.5-3.5% based on prevailing exchange rates at 21 July 2017 and taking into account the 80bps headwind from the loss of revenues from the disposal of the Gynaecology business.

We expect the 2017 tax rate on trading results for the full year to be around 22%. As a result of our progress improving our tax rate, and excluding the one-off benefit seen in H1 2017, we expect a tax rate on trading results of around 25% to be sustainable, barring any changes to tax legislation or other one-off items.

Looking further ahead, we are confident that our pipeline of innovation and improved execution will underpin our medium-term ambition to consistently outgrow our markets whilst building trading profit margin.

Forward calendar

The Q3 Trading Report will be released on 3 November 2017.

About Smith & Nephew

Smith & Nephew is a global medical technology business dedicated to supporting healthcare professionals in their daily efforts to improve the lives of their patients. With leadership positions in Orthopaedic Reconstruction, Advanced Wound Management, Sports Medicine and Trauma & Extremities, Smith & Nephew has more than 15,000 employees and a presence in more than 100 countries. Annual sales in 2016 were almost \$4.7 billion. Smith & Nephew is a member of the FTSE100 (LSE:SN, NYSE:SNN).

For more information about Smith & Nephew, [please visit our corporate website www.smith-nephew.com](http://www.smith-nephew.com), [@SmithNephewplc on Twitter](https://twitter.com/SmithNephewplc) or [visit SmithNephewplc on Facebook.com](https://www.facebook.com/SmithNephewplc).

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, payers 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 or other problems with quality management systems or failure to comply with related regulations; litigation relating to patent or other claims; legal compliance risks and related investigative, remedial or enforcement actions; disruption to our supply chain or operations or those of our suppliers; competition for qualified personnel; strategic actions, including acquisitions and dispositions, our success in performing due diligence, valuing and integrating acquired businesses; disruption that may result from transactions or other 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, competitive or reputational 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.

à Trademark of Smith & Nephew. Certain marks registered US Patent and Trademark Office.

First Half Consolidated Revenue Analysis

	1 July 2017 \$m	2 July 2016 \$m	Reported growth %	Underlying Growth⁽ⁱ⁾ %	Acquisition /disposals %	Currency impact %
Consolidated revenue by franchise						
Sports Medicine, Trauma & Other	946	955	-1	3	-3	-1
Sports Medicine Joint Repair	303	288	5	6		-1
Arthroscopic Enabling Technologies	304	316	-4	-3		-1
Trauma & Extremities	246	233	6	6		
Other Surgical Businesses	93	118	-21	9	-29	-1
Reconstruction	792	778	2	3		-1

