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## Conference Call Transcript

SNN - Preliminary 2008 Smith & Nephew Earnings Conference Call (Afternoon)

Event Date/Time: Feb 12, 2009 / 02:30PM GMT

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## CORPORATE PARTICIPANTS

**David Illingworth**

*Smith & Nephew - Chief Executive*

**Adrian Hennah**

*Smith & Nephew - CFO*

**Julie Allen**

*Smith & Nephew - IR*

## CONFERENCE CALL PARTICIPANTS

**Michael Matson**

*Wachovia Securities - Analyst*

**Jared Holz**

*Thomas Weisel Partners - Analyst*

**Matt Miksic**

*Piper Jaffray - Analyst*

**Shaw Goodwin**

*BMO Capital Markets - Analyst*

**Vincent Rech**

*Wachovia Securities - Analyst*

## PRESENTATION

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### Unidentified Company Representative

(inaudible) -- make first forward-looking statements within the meaning of the US Private Securities Litigation Reform Act of 1995. In particular, statements regarding significant revenue growth trade-in margins discussed on the outlook are forward-looking statements as are discussions of our product (inaudible). These statements as well as the phrases as (inaudible), plan, anticipate, (inaudible), 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, framed and regulatory approval that could cause the actual results from any future results, performance or achievements expressed or implied by such within the US Securities and Exchange Commission under the US Securities and 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. All forward-looking statements in this presentation are based on information available to Smith & Nephew as of the date hereof. All written or oral forward-looking statements attributable to Smith & Nephew and 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 statements made herein to respect any change in Smith & Nephew's expectations with regards there to or any change in events, condition or circumstances on which any such statement is based.

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### Operator

Ladies and gentlemen, you are now connected to the auditorium. You will hear silence until the call begins. Thank you.

Ladies and gentlemen, good afternoon. I'm now handing you over to David Illingworth to begin today's conference. Thank you.

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### David Illingworth - *Smith & Nephew - Chief Executive*

Thank you. Good morning, ladies and gentlemen. Thank you for joining us for Smith & Nephew's US conference call to discuss our fourth-quarter results and full year. My name is David Illingworth. I'm the Chief Executive. I have with me Adrian Hennah, who is our Chief Financial

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Officer. I hope you had a chance to look at the webcast of our results presentation from this morning or a copy of the slide presentation on our website. I'm going to make a few opening remarks and then turn to Q&A.

First of all, we feel this is a sound set of results that we put out this morning. In 2008, as you know, we faced a number of industrywide and company specific issues. We took some clear management actions and have finished the year with a stronger business as a result.

In the fourth quarter, our sales grew by an underlying 7% to \$960 million. For the year as a whole, we achieved revenues of \$3.8 billion, up 13% on a reported basis and 6% on an underlying basis. Our trading profit for the fourth quarter was \$222 million, an underlying increase of 8% and for the year as a whole, \$776 million, up 10% on a reported basis or 6% on an underlying basis.

Adjusted earnings per share for the year was up 7% at \$0.556, and the board is recommending a second interim dividend up 10% to \$0.0812 per share. We've made good progress with our earnings improvement program this year, and we have many ongoing projects underway to reengineer our business for sustainable profitable growth. We have new distribution centers in orthopedics in the US and Europe. Benefits are coming from the merger of the reconstruction and travel business teams. We are building a new factory for Advanced Wound Management outside Shanghai to reduce our costs and also to serve the growing Chinese and Asian markets in due course.

The headwinds from Plus from compliance and our investment in negative pressure wound therapy mean that our progress is less visible in the financial outcome for the year. We see a trading profit of 23.2% for the fourth quarter as a good outcome.

Now let's take a look at each business in a little more detail. Our orthopedics business, which includes reconstruction, trauma and clinical therapies, grew revenues by 6% in the quarter and achieved double-digit growth in the US. In reconstruction we achieved growth from our hip and knee businesses with US hip revenues growing by 8% in the quarter and knee revenues by 15% in the quarter. Our knee business has benefited from the JOURNEY and LEGION ranges this quarter and this year as a whole, and these products continue to be very well received by surgeons. The impact of Plus on revenues is turning out to be lower than we envisaged in early 2008, and with more certainty around the numbers, we're changing our guidance on lost revenues from \$100 million to \$80 million.

We announced a few weeks ago that we have achieved a significantly earlier settlement with the Plus vendors than originally anticipated. Now we can concentrate on the full benefits of the Plus acquisition, including growth in revenues from the combined product ranges and salesforces. The work in our US trauma salesforce has paid off for us, and the benefit can be seen in the 13% US growth that we achieved in the quarter. Endoscopy had a good quarter with global revenues up 9% and up 14% outside the US. Arthroscopy, where Smith & Nephew is the world leader, performed well driven by repair, which grew about 21% in the quarter. The reinvigoration of the US salesforce has been a major factor behind this growth.

Turning to Advanced Wound Management, in 2008 it achieved its best growth in global revenues for five years. In the fourth quarter, its revenues grew by 7% and outside the US by 10%.

Exudate Management grew by 2%, and Infection Management segment grew by 13% in the quarter. Our Negative Pressure Wound Therapy business, or NPWT as we call it, continued to build its customer base in is making excellent progress in building a strong base of pump rental income, as well as disposable sales.

However, I would stress that this currently is a very small business in the context of group revenues of \$3.8 billion, but one which we are very positive.

Looking forward to 2009, we expect the market to be resilient underpinning demand across our business. People will continue to wear out their joints, and accidents will continue to happen. There is continuing growth in demand for our products, which enable our patients to return to their active productive lives. We have some new products which we are excited about, and in Europe we expect to begin to realize the significant benefits available to us from the acquisition of Plus.

Endoscopy probably has the most exposure to elective procedures in the group, and we do expect some weakening of demand in 2009. But as a market leader, we expect to be able to continue to grow the business, especially through innovation and product development.

Advanced Wound Management has a big agenda for 2009 and good opportunities to build a substantial business in the US, and Negative Pressure Wound Therapy is a focus for 2009 as we have already mentioned.

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So to summarize for the business as a whole, demand for our products will continue and is in many of our business segments resilient. Innovation that delivers customer benefits will be rewarded, and that is something we are very good at. Our strategy is to be the market leader or close to the market leader in all of our business segments and to use that market leadership to deliver sustainable profitable growth. Our earnings improvement work has already put us ahead of the curve in delivering the mindset that I think we need in order to win in the current economic climate, and we have had a very tough look at our cost structures, which gives us continued confidence in our overall profitability targets.

And with that, let me open up the meeting to questions.

## QUESTION AND ANSWER

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### Operator

(Operator Instructions). Matt Miksic.

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### David Illingworth - *Smith & Nephew - Chief Executive*

I think Matt was in our call this morning, so maybe he is not on right now.

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### Operator

So, ladies and gentlemen, we have no questions coming through, so just another quick reminder. (Operator Instructions). Michael Matson.

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### Michael Matson - *Wachovia Securities - Analyst*

A little bit more clarity on your EIP margin target that you're talking about, this 24.5% trading margin. Is that -- when you talk about that in 2010, do you mean for the full year you will average 24.5%, or you will hit 24.5% in the fourth quarter, which obviously you get a boost from seasonality there?

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### David Illingworth - *Smith & Nephew - Chief Executive*

Yes, that is a good question, and it is one that we have handled a few times in the past with different groups. I'm not sure if we have talked directly with you, Michael.

The intent of that has always been that we have -- we exit the year with a sustainable 24.5% margin in our business. That does not mean that it will average 24.5% for the entire year, but we will exit the year with a sustainable margin at that level.

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### Michael Matson - *Wachovia Securities - Analyst*

Okay. So you could -- so in other words, in 2011 you should be able to average at least 24.5% for the full year?

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### David Illingworth - *Smith & Nephew - Chief Executive*

Yes, absolutely.

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### Michael Matson - *Wachovia Securities - Analyst*

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Okay. And then it seems like trying to back into the revenue for your Negative Pressure Wound Therapy products, you said 2% of your growth in wound therapy came from negative pressure. That gives me about \$4 million, \$5 million. But I think you said on the prior call that your billing accounts increased by 17% sequentially, but it looks like by our math the revenue was about flat sequentially. So just trying to reconcile that.

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**David Illingworth - Smith & Nephew - Chief Executive**

Yes, you know what I will -- we are trying hard not to give too much visibility to these numbers because they tend to run away on us. The point that we're trying to make is that we are making progress in Negative Pressure. I think your math is leading you in the right direction that there was an increase in billable accounts that the revenue may not have tracked at quite that level. I think there is a lot -- there were a lot of factors for us in the fourth quarter, not the least of which is that we're bringing a whole new range of products out in the first quarter for global launch in that business. So we were pleased with where we are, and I don't -- Adrian, do you have anything to add?

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**Adrian Hennah - Smith & Nephew - CFO**

No, the numbers we put out there for calculation I would say Michael's calculations are directionally correct. You just can be a little careful in rounding when you're talking 2% and 7%, which I suspect is where you get the calculation from. But there is no question that the average sale per account is small. Someone else asked that question this morning, which is what you expect in the start of the sort of pattern of breaking into accounts here.

So your numbers, I think just be a little careful on what the rounding is telling you, but we are not going to be more precise. But directionally you're heading in the right direction and basically what we expected too.

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**Michael Matson - Wachovia Securities - Analyst**

Okay. And then the foam, is the foam currently on the market globally, and is there any plans on Smith & Nephew's part to sell the foam by itself for use with other manufacturers' pumps?

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**David Illingworth - Smith & Nephew - Chief Executive**

Well, the answer to the first part of the question is no. It is not on the market. And the answer to the second part of the question is, we would not be revealing any strategic moves like that at this point, even if we had them in our plans. We are -- I think it is safe to assume that we're focusing right now on bringing a great product to the market and continuing to make steady progress in ramping up the acceptance of that product against a very tough entrenched competitor.

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**Michael Matson - Wachovia Securities - Analyst**

Okay. And then one final question, which should be pretty quick. Is there any risk of goodwill write-down given what happened with Plus, or did the fact that you were able to reach a settlement with the sellers of the Company kind of eliminate that possibility?

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**Adrian Hennah - Smith & Nephew - CFO**

Michael, the technical answer to your question and a substantive answer, the technical answer is that there's going to be no goodwill write-down simply because of the way under IFRS you account -- forgive me, this is a little technical -- but you look to the cash generating unit, and the cash generating unit is the whole of the orthopedic business. It is integrated into it and so no longer in the way you track this. You look to the concept of a nonintegrated Plus. So there is no question of a goodwill write-down, and we addressed that really head-on when the issue emerged rather than now. So there's no question of a goodwill write-down.

That said, the proceeds that we received, CHF159 million which we have now received, although we got them after the year-end, most of those will go to reduce goodwill. So they will go -- in accountant terms, forgive me -- will go debit, cash, credit, goodwill. There will be a small credit for this tax provision we now take on liability for, the exact number of which we will determine in quarter one. It is not huge. So, therefore, there

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will be a reduction in goodwill, but it is not determined in any sense by the worth of Plus. It is just determined by the amount of cash you have got.

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**David Illingworth - Smith & Nephew - Chief Executive**

And we will give them the mechanics of that once we get there.

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**Adrian Hennah - Smith & Nephew - CFO**

Yes, quarter one it will materially be part of the numbers.

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**Michael Matson - Wachovia Securities - Analyst**

Okay. Thanks for taking my questions.

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**Operator**

We have no further questions coming through so one last reminder. (Operator Instructions). Jared Holz, Thomas Weisel Partners.

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**Jared Holz - Thomas Weisel Partners - Analyst**

David, you mentioned that you're not really seeing significant procedural slowdowns on the reconstructive side. I was just wondering what the Company's visibility is there? How many months out can you foresee procedure volumes to get comfortable with that type of guidance?

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**David Illingworth - Smith & Nephew - Chief Executive**

Well, I cannot see in the future. That is part of the problem. The only thing we can do is look retrospectively at this, and I'm glad you asked the question because I fear that I am going to be misquoted on this somewhat.

It is a bit of a nuance here. It is a bit of splitting hairs. We did not see anything that we saw -- we did not see anything that we felt was -- had an appreciable impact on our business in the fourth quarter as a result of softening volumes in orthopedics. We clearly saw something in Endoscopy. The capital side of the business was a bit softer.

So we know what is going on in our business obviously because we can take a very fresh and complete look at it. We know less about what is going on in the competitors' businesses, and we can really only keep our antenna up in the marketplace and then see what they report on a quarterly basis. And I think the nuance here is that a couple of the competitors, not all of them, a couple of the competitors indicated that there may be a softening in the market in terms of volume, and then I think that is what I'm commenting on there.

It would not be a surprise to me if that was the case. I do not believe that we're going to be immune as an industry to this economic downturn. I do think we have very resilient markets. I think they are underpinned by some extremely compelling demographic data, and I think that we're going to weather the storm pretty well. But I don't think we are going to be immune to it.

So we're keeping our eyes open, and the only thing I can do is try to be as predictive as I possibly can. But the crystal ball technique is a little more difficult.

I think there is an inherent lag as well in the marketplace. I mean these types of procedures, especially if you're looking at reconstructive, a lot of these procedures are planned and scheduled well in advance. They may be scheduled two, three, four, five, even six months in advance, while people are preparing themselves to get this rehabilitative surgery done. So I think there is an inherent lag in the system that we have to be conscious of, and just because we did not see a tremendous impact in the fourth quarter, I still think we have to keep our eyes open.

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**Jared Holz - Thomas Weisel Partners - Analyst**

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Okay. That is very helpful. And then just lastly, there has been a lot of pressure on the US hospital side, and I know you expect it to impact your Endoscopy business to some degree in 2009. Can you talk about what it looks like over in Europe since you are closer to those markets and what the pressure on hospital spending seems to be in that region?

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**David Illingworth - Smith & Nephew - Chief Executive**

Yes, it is a great question, and I would tell you just from the 30,000 foot level, I do not see it appreciably different. I think we're seeing some -- we're seeing mainly anecdotal type evidence that there is a lot of pressure. We hear hospital administrators make comments like they are battenning down the hatches, and the capital equipment spend is being driven to a very low number. We hear anecdotal stories from the industry whether they are right or wrong about practice volumes potentially being a few percent lower than they were this time last year.

None of this is verified, but I think what we're hearing is pretty much the same anecdotal stuff on both sides of the pond.

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**Operator**

Matt Miksic, Piper Jaffray.

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**Matt Miksic - Piper Jaffray - Analyst**

I wanted to ask a question just about I think you have talked about some of the products that you have launched in orthopedics and some of the ones that are driving growth in mix certainly over the last year. I'm wondering what we can look for going forward? I know there's parts of the business like porous metal, for example, I know you have some surface products that may be able to provide some of the benefits of porous metal. But I'm curious about your thoughts -- are you going to go there, or are you going to go at some point to large diameter metal on metal and when, and any sort of product-related outlook you can provide us in terms of your strategy?

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**David Illingworth - Smith & Nephew - Chief Executive**

That is a good question. First of all, we're moving in the direction of large metal heads as well. We have a large metal head now as an FDA approved product to be used as a bailout for our hip resurfacing product. So we certainly have the technology completed. It is just a matter of getting through the regulatory process in the US, and we would expect that in the near future. We think that that is going to be a good product for us.

Again, it is about -- I don't know if you heard my comments earlier -- it is about giving customers choices. A lot of people say, well, why do you need it if you have this or that? But there is no other company in the world that gives their customers the range of choices and advanced bearing surfaces that we do. If the customer wants ceramic on ceramic, we have it. If they want metal on metal, we have it. If they want metal on polyethylene, we have it. If they want OXINIUM on polyethylene, we have did. And no other company can claim that.

So it is just a matter of getting another product in our basket, and I think it would be a good product to have. Our competitors have been talking a lot today -- I'm getting a little hoarse -- our competitors have really only one way to compete against our resurfacing product, and that is with large metal heads because they offer a few of the advantages like the resistance to dislocation and some of the wear properties for these younger patients. And they are going to continue to compete against us with those products, and it is kind of four against one right now. But we have done very, very well with the resurfacing product, we're happy where we are, and we will do even better once we get large metal heads out.

We're also very excited about our new universal acetabular cup, and again, it fits right into the strategy of being able to have maximum choice for the customer and the surgeon and the ability to do just about anything they want to do once they open that patient up.

We will continue to look for products that are important for the segment of the younger more active patient. We believe very strongly that it is more about a disease state. Osteoarthritis does not start when you're 70-years-old. It starts when you're on the football field at the age of 16, and you tear some cartilage surfaces, and you have some defects, and they create other problems over time. And we believe that treating the disease state and having the full range of products, everything from early intervention Arthroscopy to biologics, interventions early on, fixing focal defects, injectable hyaluronic acid products, minimally invasive bone sparing techniques like the knee products we're bringing out, you will continue to see more of that from us because we think it is going to be a key differentiator for us in the future.

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**Matt Miksic - Piper Jaffray - Analyst**

Okay. One question -- and I apologize of juggling a few different calls this morning -- but on operating margins, you have said what the long-term goals is. I think you have given some idea as to what some of the gives and takes could be in 2009. But if I could just ask you, if you are getting from here to 24.5 in 2010, how should we be thinking about magnitude and direction for 2009?

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**David Illingworth - Smith & Nephew - Chief Executive**

Yes, this is a tough one for us because we don't want to really give any clear guidance on this, but we understand your need to try to understand our margin performance for '09. So we are a bit sympathetic.

I think you can assume that we're going to make measurable progress towards that 24.5 in 2009. We're not planning on getting it all in 2010. That is for sure. We are going to make some real good progress in 2009. I think you will start -- it will start becoming more clear as we progress through the quarters and the year, and we will be able to give you a little bit more clarity on it. Adrian, do you want to add anything?

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**Adrian Hennah - Smith & Nephew - CFO**

Well, not really, well, except to say, yes, there are sort of two broad types of components that are driving it. One is the particular projects that we have got going, and there's lots of those delivering in '09.

A couple of those that we have been working on since the outset of surrounding the factories are long leadtime ones, and they are going to push down a bit our wound factory comes on stream in the course of this year. But we still have a [logger] factory in the course of this year. So we have got some benefits but also some double running costs this year, whereas next year that will be clean.

So within the projects we have significant contribution in '09 expected, but there is some lag in that for the longer-term ones. And then on the other component is the sort of unwinding effect, if you like, of the investments in NPWT where we are, as we've said, not expecting breakeven for a few quarters, which has something around phasing. And also in the case of finally dealing with the year-on-year impact of the lost Plus sales. We lost a significant amount of profit, well over 50% margin on the profit on the last \$64 million sales this year. There will be a lot less profit drop through next year as we do not have the associated costs and the overheads that we no longer need are driven down more. So those also mean that that will come during '09 but won't be there for the full year. So there are number of issues that we've talked about that will affect the phasing between '09 and 2010. But, as they said, we don't want to put numbers around it because it is not helpful in the round.

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**Matt Miksic - Piper Jaffray - Analyst**

I guess I can understand that. So if you have something like 400 basis points or something like that, or maybe not so much, but is it fair to say maybe that some of the variables, significant variables, that might drive you up or down this year would be things like how much pressure you have given some conservative guidance or at least a conservative view maybe of where the recon market is going to go? So potential pluses or minuses around hip and knee growth given that they are pretty high incremental operating margin products or maybe potential pluses and minuses around FX, would those be sort of some variables that might affect this year's numbers from, say, modestly up to more significantly up?

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**Adrian Hennah - Smith & Nephew - CFO**

Yes, there is no question. On top of the stuff which we control, i.e. the cost reduction programs, there are extraneous factors. Forex is one. We don't have a huge exposure to Forex as we explained on the earlier call. Because we have a reasonably good natural hedging, but we do have a bit of exposure in cost of sales, so extreme movements in currency, particularly if we got a combination of strong dollar and strong sterling, that could get a little bit nasty for us. But there are combinations of currency movements, which could be a little bit painful.

And there is no question, if you have higher volume growth, it makes life a bit easier. If you have lower volume growth, it makes life a bit harder, and the bigger the deltas in those volumes growths, the bigger the degree by which it is easier or harder. But unless there is something dramatic --

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**David Illingworth - Smith & Nephew - Chief Executive**

I think if we see some price pressures as well towards the end of the year, that could impact it. Our going in assumption when we launched this program, I think Matthew or you were probably in the room when we did it, was that we were assuming that pricing was essentially flat through the periods that we were improving our business under. Now we have not seen that to be an issue as of yet, but if there is some -- if there continues to be a dislocation in the industry due to the macroeconomic environment, at some point you might expect that you would see some level of pricing pressure, and it is hard to predict when that would come if it did. But that might be a risk for you.

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**Matt Miksic - Piper Jaffray - Analyst**

Okay. And the last -- I don't know, if somebody asked the question already, but strategically I know you talked about you have talked in the past about sort of tuck-in acquisitions. Have you thought more about spine? Is that if you were to prioritize the areas where you think you would be attracted to add to your business lines, how does spine rank?

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**David Illingworth - Smith & Nephew - Chief Executive**

Well, I think that -- look, I have always said, I have been very consistent on this and pretty open on this. If I was going to choose right now based on what I know, the adjacent spaces for us where we have a knowledge of the industry segment and some adjacent technology expertise like dental and spine and the biologics type related things that go with those spaces, those segments, those would be the ones that I think we're most interested in, and we continue to be interested in them. We have not had a -- we have not had something jump out at us as to how to get into the spine market with significant enough scale to think that it would make sense for us. So we are patient on that. We dabble in it a little bit with some of our products. We clearly are moving into investing a little bit more on the biologics side mainly because we have the ability to fund that growth through putting those products through our current orthopedic channels. And what we have done is we have taken the activity that we currently have that was split up amongst four businesses and put them under one central leadership and based in Raleigh-Durham as you know, and we think we're going to be able to better serve ourselves and our customers and our shareholders, quite frankly, with how we best managed that initiative going forward.

So that is a little bit of a thumbnail sketch. It continues to be of interest. Don't quite see exactly how to get into the space with sufficient enough scale, and we continue to look at things.

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**Matt Miksic - Piper Jaffray - Analyst**

Okay. Thank you for taking the questions.

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**David Illingworth - Smith & Nephew - Chief Executive**

Thank you very much, and we will have to end the call at this point. I believe -- I mean how are we doing?

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**Julie Allen - Smith & Nephew - IR**

I think we have probably got time for one more question (multiple speakers) if there are not many more questions.

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**David Illingworth - Smith & Nephew - Chief Executive**

Are there any more questions?

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**Operator**

There are two questions. Joanne Wuensch, BMO Capital Markets.

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**Shaw Goodwin - BMO Capital Markets - Analyst**

This is [Shaw Goodwin] for Joanne Wuensch. I had a quick question on the compliance costs. You have mentioned previously you have guided for somewhat less than \$30 million in 2009. Is that still the case?

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**Adrian Hennah - Smith & Nephew - CFO**

Yes, we believe that the cost in -- excuse me, in 2008 or 2009?

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**Shaw Goodwin - BMO Capital Markets - Analyst**

2009.

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**Adrian Hennah - Smith & Nephew - CFO**

Yes, what we said is that 2008 was about \$30 million, and we're basically saying do not assume any major change in that going forward. (multiple speakers) The composition of it will not be the same, but the aggregate number we think broadly will be.

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**Shaw Goodwin - BMO Capital Markets - Analyst**

Okay. So about -- so that is the same amount, \$30 million?

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**Adrian Hennah - Smith & Nephew - CFO**

Yes.

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**Shaw Goodwin - BMO Capital Markets - Analyst**

And then on the hospital capital budget impact to the Endoscopy business, you mentioned that a certain percentage of the business is exposed to the capital side. Can you break that down for us and tell us like what percentage has more exposure to capital budgets versus or maybe not the entire Endoscopy business?

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**Adrian Hennah - Smith & Nephew - CFO**

Sure. It is about a quarter of the Endoscopy business by sales.

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**Shaw Goodwin - BMO Capital Markets - Analyst**

And then finally on Negative Pressure Wound Therapy, can you remind us of the strategy there again? I know you just mentioned that you are not expecting to breakeven for the next few quarters. Is there a better timeline there, or should we just expect something maybe next year, or can you elaborate on that?

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**David Illingworth - Smith & Nephew - Chief Executive**

Well, let me try to give you the 30-second answer about what is our strategy on negative pressure. Our strategy on negative pressure was to enter into this market segment given the fact that we treat more wounds than any other company in the world, more hard to heal wounds. It was the ones segment that we were not participating in.

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As you know, we entered into it, and we have partnered with some very strong players in the US, and we plan on using those partners to help us get to the marketplace and to the customers and get the products to the customers in the US and then use our very strong sales channels outside the US, very well-developed sales channels to develop the market outside the US, which is in a much more immature stage in terms of market adoption.

The other part of the question was not a strategy question. It was -- oh, when will it breakeven? We're basically saying that it is not going to breakeven for a few quarters. It is not something that we're spending a lot of internal time. We spent a lot more external time on this answering questions than we do internally because we are in an investment phase with this business right now. We're doing this for the long-term. We think it's going to be a significant part of the leverage of this business going forward, and we are competing against a very well entrenched competitor that had 100% market share in a very large market. So it requires significant investment in order to get where we ultimately want to go.

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**Shaw Goodwin - BMO Capital Markets - Analyst**

Can you also update us on the temporary injunction that you received in the UK I think at the beginning of the year that prohibited you from commercializing foam dressing kits?

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**David Illingworth - Smith & Nephew - Chief Executive**

Sure. You did it great this morning. You can handle it again. (multiple speakers)

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**Adrian Hennah - Smith & Nephew - CFO**

Yes, I did, indeed, get an injunction in the UK market against us at the beginning of the year. And the reason they got it was that it was what we were told by the lawyers, and I'm no lawyer, but what our lawyers told us was on the basis of a convenience injunction in that we have not got anything on the market. We were not selling it, so the injunction was not going to require us to take anything off the market. And as part of the overall package, there was going to be an expedited hearing, which we wanted. So the hearing has been set for the end of March, the full hearing, and that was essentially the deal. The injunction against us, we would not do anything until March, but March was set to be near a short-term time away. So we're actually very happy with that outcome.

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**Operator**

Vincent Rech, Wachovia.

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**Vincent Rech - Wachovia Securities - Analyst**

I have just got two quick questions. One is a bit of a housekeeping question, but you moved some stuff around in terms of how you classify it. I'm curious where are you going to be recording your biologics consolidation?

And then also Exudate versus Infection Control, where will you be putting your NPWT numbers even though you're not breaking them out?

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**Adrian Hennah - Smith & Nephew - CFO**

Sure. In biologics we are staying where most of it was already, which is within the orthopedics business unit. So the numbers for biologics and clinical therapies are within the orthopedics business unit.

As regards the NPWT, at the moment we are just within wound. It is just one of the products within wound. We do show the growth rate separately of Exudate and Infection Management. They do not include NPWT.

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**Vincent Rech - Wachovia Securities - Analyst**

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Okay, great. And when you guys gave your EIP goals, at that point in time you had trauma and reconstruction separated. I'm just curious because you guys have set your goals that way accordingly, could you just tell us what those businesses look like comparatively on an operating margin basis?

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**Adrian Hennah - Smith & Nephew - CFO**

No, we don't --

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**David Illingworth - Smith & Nephew - Chief Executive**

Well, we could, but we --

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**Adrian Hennah - Smith & Nephew - CFO**

Well, in some sense we could not actually because when you integrate things back together again -- (multiple speakers)

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**David Illingworth - Smith & Nephew - Chief Executive**

It is harder (multiple speakers) we could have before.

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**Adrian Hennah - Smith & Nephew - CFO**

So we deliberately are not doing that. When we brought them back together again, we said we will continue to report the sales separately. So you can see them, but the business was now integrated, and we would not be reporting the margin separately.

I don't think anything dramatic has happened since we last reported the two separately. But it is really not sensible for us to do the two separately now.

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**Vincent Rech - Wachovia Securities - Analyst**

Okay. And if I could just slip in one market question there. Last fall there was an article put out in JBJS discussing the lack of evidence for electrical stimulation on long bone fracture. I know you guys have an ultrasound-based product. Also, one of the competitors in that market has seen a turnaround in their business. I'm just curious what are you guys seeing in that market? It is not one you talk about a lot, but I think it is one that people might pay attention a little bit more to with the issues within (inaudible) out there right now?

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**David Illingworth - Smith & Nephew - Chief Executive**

Well, we're seeing great growth in that market segment. It continues to be great. We have made just tremendous progress in taking share away from electrical stimulation over the last few years. We now have a significant market position. We continue to be excited about the product. It works.

One of the things that differentiates us from the electrical stimulation product I believe is that we have gone to the effort to prove the mechanism of action of healing on mechanical stimulation, the ultrasound side. It was something that I started when we were -- when I was running the orthopedics business many years ago, probably five or six years ago. We started this activity where we felt like it was important to prove the mechanism of action and healing so that we could better understand it, number one. And number two is to start trying to improve it over time. And we have been very successful with it. So we're quite bullish on it.

All right. Thank you very much, and thanks to everyone who attended the call. We really appreciate it.

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**Operator**

Feb 12, 2009 / 02:30PM GMT, SNN - Preliminary 2008 Smith & Nephew Earnings Conference Call (Afternoon)

Ladies and gentlemen, thank you for attending today's conference. You may now replace your handsets.

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