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# SNNUF.PK - Preliminary 2007 Smith & Nephew Earnings Conference Call

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## PRESENTATION

**Operator**

Good ladies, and gentlemen, and welcome to the Smith & Nephew 2007 third quarter results conference call. For your information this conference is being recorded. Before we begin, we would like to read out the Safe Harbor Statements.

This presentation contains certain forward-looking statements within the meaning of the US Private Securities Litigation Reform Act of 1995. In particular, statements regarding planned growth in our business and in our 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 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 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, 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.

I would now like to hand the call over to Mr. David Illingworth, Chief Executive of Smith & Nephew. (Technical Difficulty).

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**John Buchanan** - *Smith & Nephew plc - Chairman*

Good morning, everybody. Welcome to our preliminary results presentation. 2007 was a good year for Smith & Nephew, with double-digit revenue growth for the Group. This growth has been across the whole business. For example, in Reconstruction we achieved double-digit revenue growth for the fifth year running. Endoscopy achieved 10% revenue growth for the first time in five years. Dave will provide you with more examples.

The management team has also delivered 130 basis points of margin improvement in the first year of the Earnings Improvement Program, in line with our commitment to you last year. With double-digit sales growth and double-digit earnings and dividend growth we believe the Company has again delivered a distinctive performance, currently amongst the best of both the FTSE 100 group and the peer comparator group.

Smith & Nephew has a clear consistent strategy. We're in the Orthopedic business, both Reconstruction and Trauma, in Endoscopy and in Advanced Wound Management. In each of these four businesses we concentrate on the high-growth segments and on delivering quality products tat improve the lives of patients, bringing benefits to medical professionals and to healthcare systems around the world. It is this strategy, and the actions of our management team, that is delivering high performance and giving us confidence for the future.

As you know, we had a number of management changes over the last two years. In June last year Dave Illingworth was appointed CEO, completing a change in the top management team. Adrian Hennah was appointed the year before, and we've had various changes in the four business divisions. I hope you'll agree with me, and Board view, that this new team has settled well and have made a promising start.

Smith & Nephew is about growth. We've put in place a strong platform for growth through our new products already on the market and we have more in the pipeline. Growth is well established at Smith & Nephew. In addition, we've given a new focus to the bottom line. Our Earnings Improvement Program has started well. The Board has confidence that the plans for the next few years are realistic and achievable.

Before I hand over to Dave, I would just like to end with the Board's view of Smith & Nephew. We see the Company as a strong business, one with innovative products and increasingly quality operational excellence. The business has excellent opportunities for sustained future growth and is being run by a highly motivated management team. Follow that, Dave. Over to you.

Thanks.

**David Illingworth** - *Smith & Nephew plc - CEO*

Thanks, John, and good morning, everyone. We're going to use a familiar format today and one that I think all of you will recognize. I'm going to give you an overview for the year, and then I'm going to hand it over to Adrian who's going to cover the financials. And then I'm going to conclude with the review of our strategy -- different strategies and the performances within our businesses.

First, 2007 ended up really well for us. We achieved over double-digit revenue growth for the year and our business accomplished a number of key milestones. In Reconstruction, we grew faster than the market for the fifth consecutive year, a substantial achievement, driven by the Birmingham HIP Resurfacing System, the Journey knee and the efforts of the entire sales team.

Endoscopy; it had double-digit revenue growth for the first time in my entire tenure with the Company, and the investment that we have outside the U.S. and the infrastructure that we've built is paying off. And our focus in that business on our Arthroscopy business, where we are the market leader, is paying off.

Trauma continues to grow at near-market rates and now has a very good product range and a direct sales force. Clinical Therapies continues to exceed, by several multiples, the market.

Advanced Wound Management has done some very heavy lifting this year, and has restructured the business, and has delivered a return to growth at the same time.

This was our first year of the Earnings Improvement Program and we have achieved 130 basis points of improvement. Earnings Improvement Program, or EIP, has good momentum and is right on track.

I'm going to give you a closer look at the businesses after Adrian has taken you through the financials.

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

Well, thank you, Dave, and good morning, ladies and gentlemen. Just on the previous slide, some of you may have noticed an errant sterling sign instead of a dollar sign. In fact, the sales are $3.4b, not GBP3.4b. I think this is our American Chief Executive trying to be sensitive to the U.K. culture.

**David Illingworth** - *Smith & Nephew plc - CEO*

It's wishful thinking.

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

Yes sure, sure. Okay. Turning, firstly, to slide seven and the income statement. Revenue in the quarter was $967m, giving a headline growth rate of 25% on the comparable period last year. Underlying growth after adjusting for exchange rates and for the acquisition of Plus and BlueSky was 8%.

Trading profit in the quarter was $222m, representing an underlying growth of 14%. The underlying increase in the trading margin was 110 basis points in the quarter, giving an increase of 130 basis points for the full year.

The percentage of spend on R&D was 4.3% in Q4, up from 4% in Q4 last year and the percent for the full year was 4.2%, down slightly from 4.3% in 2006. In the appendix to this presentation you will find an analysis of the Plus and BlueSky sales and trading profit included in these results. As the operations of these two acquisitions have been substantially integrated, we will not be splitting out the numbers as we go into 2008.

Within the $41m restructuring and integration costs in Q4, $15m is for our Earnings Improvement Program and $27m is for the Plus integration. We have, to date, charged $41m cash costs to profit for the EIP program out of an expected $125m over three years. And we've charged $46m cash costs to the Plus integration to date, out of a total expected of $60m to $80m.

We explained last quarter that the inventory revaluation item was a non-cash acquisition item required under IFRS in respect of the Plus acquisition. The charge in Q3 was $45m, the charge in Q4 is $19m and we expect a charge of about $15m in 2008, mainly or wholly in quarter one. As we have firmed up the analysis behind these numbers, they've reduced slightly from the estimates we gave you at quarter three.

At quarter three we assessed the quarterly amortization charge for Plus and BlueSky intangibles at $11m, based on preliminary estimates of the intangibles and of their useful lives. We now have a revised figure of $8m. The Q4 charge is reduced to compensate for the higher estimated charge in Q3. The amortization cost of $8m in Q4, therefore, includes $4m attributable to Plus and BlueSky. Net interest expense in the quarter was $16m; about 5.2% of average net debt.

Moving then to the next slide, slide eight, and further down the income statement. The tax charge in quarter four before exceptionals and amortizations was 28.3%, giving 29.6% for the full year in line with our expectations. Adjusted attributable profit for quarter four was $150m; a 6% growth on quarter four last year.

Adjusted earnings per share grew slightly faster, at 10%, reflecting the fewer shares in issue as a result of the share buy-back program.

EPSA growth is less than underlying trading profit growth of 14%, due principally to the impact of the increase in the tax rate from 25% in Q4 last year.

Turning, then, to slide nine, and an analysis of revenue by business segment. You'll hear from Dave in a moment more detail behind the numbers for each business, and I will therefore, as usual, make only a couple of financial points in respect of this and the next two slides.

On this schedule you can see the growth rates in the quarter and for each of our business segments. You can see in the currency column the impact of the weaker dollar on the translation of our numbers.

Turning to the next slide, slide 10, an analysis of revenue growth rates by segment and by geography. The underlying growth rate in our Reconstruction business was 11%, equal to the rate in quarter three, but lower than the 15% rate in half one. Growth in the U.S. Knee business recovered in well from the lower rates in Q2 and Q3, with growth of 10% in the quarter.

Growth in BHR sales in the U.S.A. in quarter four resumed the momentum from earlier in the year after a slightly weaker quarter three. The year-on-year growth grate for BHR clearly reduced as the comparators get more challenging, following our mid '06 launch.

The impact of Plus integration dis-synergies restricted growth in Europe to 6%. Growth in the U.S.A. was 16%, driven by volume and mix gains. Pricing in our Reconstruction business in the U.S.A. was essentially flat and pricing outside the U.S. was, on average, very slightly negative.

The Trauma and Clinical Therapies business growth rate was 9%. Fixation sales grew at 7% in quarter four worldwide, slightly behind the market growth rate which we estimate at 9%. Clinical Therapies sales growth was 11%, down from 15% in quarter three and 25% in quarter two. This partly reflects that fact that Clinical Therapies growth in the last four quarters was boosted by the in-license of DURLOLANE sales starting in quarter three last year.

In addition to the ending of this effect, we have continued to see falling U.S.A. growth in joint fluid therapy and in long bone stimulation, which has impacted our sales of SUPARTZ and EXOGEN.

The Endoscopy growth rate is 7%. Within this, the Arthroscopy growth rate was also 7%. Visualization and DOR sales, which are lumpy, grew at 6%. Endo sales outside the U.S.A. were again strong with double-digit growth, despite the strong comparator in quarter four. Sales growth in the U.S.A. was 4%.

Wound sales grew at 4%, excluding NPWT, Negative Pressure Wound Therapy. As we mentioned last February, Wound sales in Q4 '06 were increased due to shipments to wholesalers ahead of the cutover on January 1, '07 to a new SAP system in the U.K. With no similar effect this quarter, this has reduced reported growth slightly.

Turning to slide 11, this shows the usual analysis of revenue and trading profit by business segment. As we have already noted, underlying trading margin for the Group overall increased in the quarter by 110 basis points. A reported margin decrease of 70 basis points was diluted by 180 basis points with the Plus and BlueSky acquisitions.

Reconstructive trading margin, excluding Plus, was 50 basis points lower in Q4 compared to last year, due to particular costs associated with the DOJ settlement. Margins and Trauma and Endo improved solidly. Margin in Wound fell in Q4 on last year by 40 basis points, including the impact of the preparation costs for the BlueSky launch. Excluding these costs, the margin increased by 80 basis points. For the full year, underlying trading margin for the Group increased by 130 basis points.

We continue on track with our Earnings Improvement Program.

Turning to the next slide, slide 12, and an update on our share buyback program. We said a year ago that, based on our assumption that we'd use about $2b on acquisitions over two years, we plan to buy back up to $1.5b worth of our shares over the same period. As at the end of the last week, we've bought back a total of about 55 million shares for an outlay of about $690m and had invested about $1b on acquiring Plus and BlueSky.

After one half of the two-year time period, we've therefore used close to one half of the $1.5b on buying back shares and close to one half of the $2b in making acquisitions.

We've signaled on several occasions that we will keep the program under review and we are now at the half way point. Based on our assessment of capital market conditions and of the pipeline of possible acquisition opportunities, the Board has decided to extend the duration of the buy-back program from two years to three.

Specifically, we plan to use about $400m to buy back our own shares over the next year. Based on the information at hand today, we would also anticipate a further $400m in the following year. These numbers are, of course, subject to change if circumstances change, particularly regarding the opportunities for acquisitions. The Board has reaffirmed its commitment that the Company should retain a clear investment grade rating.

Turning, then, to slide 13, and the outlook for 2008. Our view of the Company's overall outlook has not changed. In the Recon area we have seen global market growth of about 9% per annum throughout 2007, with a slight up-tick in quarter four. We continue to expect our revenue growth, including Plus sales, to exceed market growth in 2008, as sales growth benefits from our recent launch program.

With regard to Plus, we signaled at quarter three that we were expecting slightly higher sales dis-synergies in 2008; this remains our expectation. Our expectation of sales synergies of about 15% of the acquired revenue in the first full year is unchanged.

Looking a little further ahead, we continue to see Resurfacing capturing a significant long-term share of the HIP market in the U.S.A. and we expect to be the market leader, as we are in the rest of the world.

Within the Trauma and Clinical Therapies business we have seen global market growth in fixation of about 10% through 2007, with a slight down-tick in quarter four. We expect in 2008 to, again, be close to market growth. Within Clinical Therapies, we do not expect market growth in the U.S.A. to return quickly to the levels in the first half of 2007 and earlier. This will continue to impact our sales growth in Clinical Therapies.

For Endoscopy, our Arthroscopy revenue grew at 10% in 2007. This is slightly below market growth, due to our current orientation to a slower growth part of the resection market. We expect to continue to grow slightly below the market through 2008. We expect visualization and DOR revenues to continue to be volatile quarter by quarter.

In the Wound area we continue to see a current growth rate for the market, excluding Negative Pressure Wound Therapy, of about 6%. We grew in line with market in quarter four. We expect to grow at, or slightly ahead, of the market in 2008. We expect Negative Pressure Wound sales to grow materially, following the full launch of the BlueSky product range this quarter. We are not, however, giving guidance on our expectations for commercial competitive reasons and as the range of possible outcomes is quite wide at this stage.

Finally, on revenue, Easter holidays are in quarter one this year, whereas, they were in quarter two last year. We have two fewer working days in quarter one; 62 instead of 64. This will impact quarter one growth rate slightly.

As far as margins are concerned, we remain on track with our Earnings Improvement target with an increase in trading margin of an average of at least 1% per annum to the end of 2010, before the impact of acquisitions and assuming a broadly mutual pricing environment.

We also remain on track with our target cost savings from the Plus acquisition of 15% of the acquired cost base, or $40m per annum in the same time period.

We've been asked by some investors to put these two targets together and provide a combined margin guidance. The EIP margin target was based on the 2006 trading margin, as you know, of 20.5%. The dilution of Plus' lower margin on acquisition is broadly equal to the expected gains from acquisition cost synergies in the third full year. The initial margin dilutive effect of the BlueSky acquisition is also not expected to last beyond 2008. Overall, therefore, the expected margin by the end of 2010, subject to future acquisitions and changes in pricing environment, is 20.5% plus an average of 1% per year at the start of 2007. I think that's a little clearer.

We continue to expect a modest increase in the percent of turnover spent on R&D to around 5% over the next couple of years.

Looking at 2008 margins, we will continue in the first half to see year-on-year dilution from the inclusion of the Plus and BlueSky acquisitions. This year-on-year effect clearly falls out in quarter three with the anniversary of the acquisitions passes.

As you know, the trading margin for individual business units and for the Group as a whole does show some volatility quarter by quarter. We are not seeking to give quarterly, or half-yearly margin expectations and are ourselves cautious not to over interpret margin movements quarter by quarter.

We expect amortization of acquisition intangibles to run at about $12m per quarter. We expect a tax rate in 2008 equal to, or very slightly higher, than that in 2007. And we're planning on an average interest cost on net debt of about 5%.

And with that update on the outlook, I'll hand back to Dave who'll talk about the business behind the numbers.

**David Illingworth** - *Smith & Nephew plc - CEO*

Thanks, Adrian. Okay, before I look at each of the businesses in turn, I want to talk about the business objectives and I also want to talk about the key drivers of our performance. First, the active informed patients are a major area of focus for us, and these patients are becoming much more involved in decisions about their own healthcare. We also believe these patients are more demanding of leading-edge solutions that help drive our innovation model.

We believe we've earned the right to say that we own this space and our businesses are very focused on it. We are increasingly looking to establish a continuum of care across our businesses, bringing benefits to patients and surgeons by leveraging up on our market-leading positions across our three Orthopedic businesses.

Our Advanced Wound Management business has had a very strong European business historically, but has been less successful in the world's largest market and most profitable market, the U.S. The management team, under Joe Woody, is working hard to change that dynamic and to successfully build a major presence for this business in the United States.

Next, a globally balanced business with a clearly global reputation allows us to source and produce excellent products and brings us closer to our customers. We have already made some moves to strengthen our business on a global business.

And also leading the industry in high-grown segments is a key business objective for us that will enable us to continue our double-digit growth and excellent returns for our shareholders.

Let me share my view of the key drivers of performance for Smith & Nephew with you. In my tenure we've always been a growth story and generating above-market growth in all the segments is a key driver for our future performance. We are achieving it in most, but not yet all, areas of the business and we see clear potential for continued growth going forward.

Our Earnings Improvement Program has delivered above 1% margin improvement in 2007. Our Organization is aligned around this and we're committed to delivering these improvements, and we have very good momentum going into 2008.

Also, our focus on the customer, I think, is unique. It gives us market knowledge, it improves our products and drives us to excel in the area of innovation. We're going to continue to search for, and be seen, as a market leader in the high-growth, high-value segments in this industry.

And I also believe a key driver of our performance, and a way we can truly differentiate ourselves, is in leveraging our industry-leading positions across our three Orthopedic businesses. Let me take a look for a second about what I mean, and show you how our customers really see us.

Let's take hips, for example, with a continuum of care. Our customers see us not as divisions, or individual products, but as a resource to help them address the clinical needs of the patient. This is an example of our cross-division offering for the hip market and our strong position in that hip market across our three Orthopedic businesses.

The earliest intervention, on the left-hand side there, might be in response to a sports injury, where Smith & Nephew is not only the leader in HIP arthroscopy but also the pioneer. About focal defect repair with a unique biologics offering in the cartilage. We're also the undisputed leader in hip resurfacing. We also have the most complete range of advanced bearing options, surfaces, in the industry anywhere. And we also now have extended our product range to some very exciting new revision products.

I personally do not believe that there is any Orthopedic company anywhere that offers the unique spectrum of clinical solutions that we do. And our ability to capitalize on this fact can really provide us some meaningful differentiation and with our surge in customers going forward.

All right. Reconstruction. In 2007, our Reconstruction business again outperformed the market for the fifth consecutive year and is now being driven by our increased emphasis on the active inform patient. BHR, Birmingham Hip Resurfacing product, has continued to perform well in the quarter as acceptance of the technology continues to grow in the U.S. The Australian Registry, known as one of the best in the world, published data recently which clearly shows that BHR is the gold standard for resurfacing. This has brought us a very good response in the marketplace and help fuel the BHR growth this quarter.

The recovery of our Knee business worldwide reflects the strong focus and efforts made by our sales force and the management team, and the benefits of our broad product range.

The integration of Plus has been completed. It's been completed in practical terms and the cross-selling of these products by the combined sales force has started now in 11 different countries.

Our product ranges are very strong, including OXINIUM for hips and knees and specific products, like the JOURNEY knee, which gives a much more natural range of motion for the patient. The major product platforms we have introduced in 2006 and 2007, and the products we will launch in 2008, will continue to drive growth in this business as they have done in the fourth quarter of last year. Just take a look at some of the products we have launched in the last two years.

First, I'll point out the JOURNEY high-performance knee system, which was recognized as the most innovative product at the 2006 American Academy of Orthopedic Surgeons and now is available in cobalt chrome.

Go onto the JOURNEY DEUCE, the only bi-compartmental knee system on the market and was recognized as the most innovative product at the 2007 American Academy of Orthopedic Surgeons. Our new R3 Acetabular cup system. ANTHOLOGY, a new flat hip stem that's already making contributions for us in the marketplace.

The LEGION revision system; a comprehensive product offering for challenging revision surgeries. And, of course, the BHR Resurfacing system, the gold standard in hip resurfacing. Jo DeVivo and his team have had a very busy and productive year, and the outlook for 2008 is good.

Looking now at Trauma and Clinical Therapies. Trauma has had a solid quarter, driven by good volume growth and the full product ranges for internal fixation, INTERTAN, PERI LOC, both making strong contributions. This great of growth, which met our own internal expectations, is just under our estimates of market growth. We are determined to improve this growth rate and our execution in this marketplace. We expect that this will take a few quarters to achieve.

In Clinical Therapies, EXOGEN, our bone stimulation product, is growing revenues at three times the rate of the market and is now the market leader. The joint fluid therapy market is undergoing some changes ahead of new product introductions and, while revenue growth is slowing in this area, we continue to gain market share.

Our Trauma and our Clinical Therapies business can best be characterized as having solid profitable growth. Margin improvement under EIP resulted in a 310 basis point improvement for the quarter and a 140 basis point improvement for the year; an excellent achievement for Mark Augusti and his team.

Now moving on to the Endoscopy business. I'm very pleased to be able to report that Endoscopy had revenue growth of 7% in the quarter and achieved double-digit growth for the year; the first year of double-digit growth for over five years. This excellent growth, the excellent result, was driven by revenues outside the U.S. which grew strongly following investments made by us in the past couple of years and by healthy knee and shoulder repair product revenues. We are using our number one position in the arthroscopy market and the sports medicine market to get closer to our customers and drive improved performance.

Although revenues on a global basis were strong, revenue performance in the U.S. has been slower than we would like, and a new head of the U.S. business has been appointed for 2008. Resection grew moderately at 5%; a pretty good result in that marketplace. DOR and visualization revenues were good, as the new high definition camera was well received by our customers.

We had a manufacturing reorganization, completed earlier in the year, and has been the major contributor to the margin improvement in the year of 110 basis points. Mike Frazette and his team at Endoscopy have worked hard to deliver a good performance in 2007 and a number of management changes in 2007 mean that the business is in a good position for 2008.

Now, to move on to Advanced Wound Management. Advanced Wound Management has made excellent progress this year. This business has been through a tremendous amount of restructuring in 2007. This restructuring has been successful and we've been able to grow faster in 2007 on the top line that we did in 2006, while positioning ourselves structurally for the future.

The plans to start manufacturing in China have been made and the construction process has begun. Significant headcount reductions have been implemented as operational effectiveness reviews have also been implemented.

The acquisition of BlueSky in the second quarter of 2007 has given us an entry into the Negative Pressure Wound Therapy market. We're going to be launching our Negative Pressure Wound Therapy business later this quarter. The new silver-based dressings, launched after the ACTICOAT Agreement was renegotiated earlier in the year, have made a very good contribution to growth in infection management. Over 20 new products were launched this year.

The heavy lifting in Advanced Wound Management has paid off, resulting in significant margin improvement. The management and employees of Wound Management have had a productive year overall, and they're to be congratulated. Against this backdrop, they completed the year with 4% revenue growth; 5% inside the U.S., 4% outside the U.S. This is a significant achievement for Joe Woody and his team in a year where the entire team experienced a great deal of change.

So, before we take questions, I'd like to recap on our strategy for growth. First, customer focus is the key to all that we do, and customer and market focus is the cornerstone of our strategy. We continue to seek acquisitions which will have a clear strategic fit and which bring us new technologies or improved channels to market.

EIP. It is delivering margin improvement that's both revenue and cost reduction as we continue to outperform in the marketplace on the top line.

We see that 2007 has been a successful year for Smith & Nephew, where experienced a great deal of positive changes and we move into 2008 with great confidence.

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## QUESTIONS AND ANSWERS

**David Illingworth** - *Smith & Nephew plc - CEO*

So now, we are happy to take questions. And we do a little housekeeping here on the rules of the game. We will use our usual system of sharing questions from the audience here in London and with our conference call audience from both sides of the Atlantic.

We'll take two questions from the folks here in London, and then take a couple of questions from our conference call audience. I would ask that each person please limit their number of questions to a question, to allow as many people as possible the opportunity to participate. And can we have our first question from the floor, please.

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**David Adlington** - *Cazenove - Analyst*

Hello, it's David Adlington, Cazenove. Just with regards to your share buyback, just wondering in terms of the extension to three years, could you really give us a feel for the balance between how much your credit costs have increased, the rating agencies may be firming up and tightening up in terms of their outlook in terms how they look at your rating, and also M&A? There's also three driving, [freedom levers] moving there. I just wondered how you -- the relative impact of those three levers?

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

I don't think we have thought about it in exactly the precise terms that you're describing. The Board has reaffirmed it's commitment that this Company should stay a strong investment grade rating, so that's unchanged from previously.

Clearly, we've been [cognoscente] about the capital market conditions have evolved somewhat, but we haven't arithmetically calculated in a very precise way from that. And we've looked again at our business development pipeline, and it remains rich. It's very hard to predict exactly when those things are going to crystallize, as you well know, but it looks rich.

And we put that in the mix, we thought, it's silly -- it's more sensible to give ourselves a bit more flexibility. It was a simple as that. There really wasn't a very a very precise formula of the sort of maybe you're thinking we might have. And there isn't a specific acquisition that we have in mind, if that's also in your mind.

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**David Illingworth** - *Smith & Nephew plc - CEO*

For the next question.

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

Yes, exactly, pre-empted.

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**David Illingworth** - *Smith & Nephew plc - CEO*

Charles.

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**Charles Weston** - *Nomura Code - Analyst*

Hello, Charles Weston from Nomura Code. I have two really burning questions, so if I can get them both in that would be great.

The first is on the Negative Wound Pressure. In the second half of last year you were still deciding exactly how you're intending to roll that out, be it through distributors or through your own sales force, and how you might go about selling that, it being such a different selling proposition to your existing products. So I was wondering if you could give us a bit more detail on that, that's not commercially or competitively sensitive.

And secondly, on the Plus margin, you made a $5m EBITDA off $85m sales; it was quite low in the fourth quarter. I appreciate there was a recall, but I wondering if you could talk a little bit in more detail about that, please?

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**David Illingworth** - *Smith & Nephew plc - CEO*

Okay. Let me take the first one, Adrian, and I'll -- we'll share this one; you can have the Plus margins.

Let me start with BlueSky. Charles, it's actually pretty straightforward. I know that we're not being overly-specific about our launch plans and our business model and our selling model for Negative Pressure, but that's by design. We really don't see a lot of value in us telling the marketplace what we're going to be doing. I think you can assume that we're listening to our customers, and we understand the market that we're in. We're listening to our customers, we're trying to put together a selling model and a business model that's going to be -- give us some differentiation.

Clearly, there is a business model today that's been established by the one competitor in the U.S., and we have to take that into account. We've already announced that we have a relationship with UHS, for instance, and we're looking at other type things. We are launching that product throughout the first quarter of 2008 and it will, obviously, become more apparent as we get towards the end of the quarter as to -- you're be able to see exactly what we're doing. But we -- by design really, we're not giving a lot of detailed information.

The launch of the -- just maybe one more comment about the launch because there's been a lot of questions about that. This is not step function like a light switch and it's not a big bang theory kind of a thing. We have a lot of work to do to make sure the product is up to our standards and it gets branded properly and repackaged. We need to make sure that our sales force is trained properly. We need to make sure that we have the technical experts in the field and we have the people who are going to sell the product deployed and trained properly and incentivized right, and the management team and the metric. We have to go through all that process and it's a series of events.

For instance, we're going to have a major training event towards the end of the first quarter for our U.S. sales force. So it is a series of things and that's why we said that we would be launching the product in the first quarter of '08. And that gives you a little bit more a flavor for it. So you can understand that we're not trying to be evasive, we're just trying not to be specific.

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

And on the Plus margins, if you look on page 29 in your pack, Charles, in one of the appendices, you'll see that Plus made a profit of $9m out of the sales of $98m in quarter four. So that's a margin just beneath 10%. Yes, that's a little bit less than the -- fractionally less than the average of the year of $23m in $200m, and fractionally less than the 11% it was pre- acquisition so, frankly, there's not a huge amount to explain there, frankly.

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**Charles Weston** - *Nomura Code - Analyst*

IT was specifically on the Recon part of that, you broke it out earlier in terms of Recon in Trauma. And in Recon it was $85m sales and $5m [EBITA], and that was significantly lower than it has been.

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

You're quite right. Frankly, one has to be a little careful when one's allocating these things because, you can imagine, there's a lot of shared costs between the two. So it would be misleading to read too much into that level of sub-aggregation, frankly. Otherwise, you've got to say, why has the Trauma profitability gone up so much, and it hasn't.

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**David Illingworth** - *Smith & Nephew plc - CEO*

Okay. We have a couple on the other side of the pond.

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**Operator**

We now take a question from Ilan Chaitowitz with Redburn Partners. Please go ahead.

**Ilan Chaitowitz** - *Redburn Partners - Analyst*

Good afternoon, this is Ilan from Redburn. I'm actually calling from London. I just want to get a feel for how BHR is progressing in the U.S. Could you give us an absolute figure for sales of BHR in Q4, and how you see the market dynamics developing for that product with the emergence of a competitor recently?

**David Illingworth** - *Smith & Nephew plc - CEO*

Right I'll -- maybe I'll start, Adrian. You can fill in areas that you would like to do so, please.

We're very happy with what's going on with BHR. We had a little bit of a -- it flattened out a little bit for us in the third quarter as all of you, in this room at least, noted for us multiple times. And we went out of our way actually to try and really figure that out and, ultimately, we couldn't figure it out. It flattened out a little bit but, actually, it was very strong in the fourth quarter. And we were very happy with the return to growth in BHR. It could have been the fanfare around another competitor coming into the marketplace in the third quarter; who knows.

Generally, the dynamics right now is the same thing I've said in the past. I think Striker is a very reputable company. They do a good job and I have a lot of respect for them. And I'm sure they'll do some business. Right now we are riding a little bit of a wave with the Australian Registry results coming out saying that -- pretty clearly that we are the gold standard in Hip Resurfacing and -- if you read the clinical results. And, quite frankly, we're not seeing a lot from our competition at this point, but that doesn't mean that they won't be there in the future.

**Ilan Chaitowitz** - *Redburn Partners - Analyst*

Thank you. Just the second part there, could you give us an absolute dollar amount of BHR sales in Q4, please.

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

I think maybe this is my contribution to say no, I'm sorry, we can't.

**David Illingworth** - *Smith & Nephew plc - CEO*

Yes, Adrian's job is to be the bad guy in that regard.

**Ilan Chaitowitz** - *Redburn Partners - Analyst*

Thank you.

**David Illingworth** - *Smith & Nephew plc - CEO*

That's because he mislabeled my slide in pounds.

**Ilan Chaitowitz** - *Redburn Partners - Analyst*

Thank you.

**Operator**

We have now a question from Raj Denhoy with Bear Stearns. Please go ahead.

**Raj Denhoy** - *Bear Stearns - Analyst*

Good morning, guys. I was wondering if I can follow up a little bit on the BHR question. One of the things that happened in the third quarter which you alluded to was that there was some price reductions in BHR. I'm curious that the price has now stabilized, or whether you're foreseeing the price of that product continuing to come down over the next couple of quarters here.

**David Illingworth** - *Smith & Nephew plc - CEO*

Well, we, typically, we don't give a lot of price information but we did indicate in the third quarter that we were seeing the price come down a little bit. Actually, it was still above where we were predicting it to be in the third quarter, but it did come down a little bit in the third quarter. Actually, we have not seen the price come down from the third to the fourth quarter, so I will give you that nugget of information. So I think we're seeing a pretty stable rollout of this product right now in the U.S.

**Raj Denhoy** - *Bear Stearns - Analyst*

Okay. And then just broader question on the orthopedics markets. You did allude to the fact that we've seen acceleration here in the fourth quarter of market growth rates. I'm curious if you had any thoughts around what might be driving that? And then, I guess, correlated to that is also your Knee business also picked up in the fourth quarter and perhaps you could talk about that also.

**David Illingworth** - *Smith & Nephew plc - CEO*

Thanks. I think we're driving it. We are introducing a new product into the largest market in the world that is a gold standard and seen as the gold standard. We're expanding the marketplace through the Hip Resurfacing products. We're expanding the marketplace through some very unique product introductions that we've made in the Active Patient segment, the younger, more demanding patient, like the JOURNEY DEUCE, which is the only bi-compartmental knee offering on the marketplace today.

So, I would hope to think that we'd have a small contribution to that. I think that overall, to be totally fair in this, the industry in general is seeing a bit of a strengthening, I think, from the third quarter to the fourth quarter. Whether or not there was some seasonality in that, I'm not really sure. There might have been a lull in the summer, but I think there's a bit of a strengthening in the market overall. And I think we're expanding the market, especially in Hips.

**Raj Denhoy** - *Bear Stearns - Analyst*

And is it on your Knee business that you accelerate in the U.S. here, fourth quarter. Any thoughts around that?

**David Illingworth** - *Smith & Nephew plc - CEO*

Well, it's because we've been trying really hard. That's the real honest answer. We've been trying hard actually for a couple of quarters to get our sales team focused on our Knee products. We believe we have a very, very strong line-up of Knee products.

And, quite frankly, we were not spending as much time focusing on it because we were spending a heck of a lot of time taking advantage of getting this BHR product introduced in the U.S. And I have explained the dynamics in the past about the fact that our independent sales force is paid on a commission, and they have a product out there that is a world-class, leading-edge product and they wanted to make the best of it. And we might not have had as much focus on Knees as we could have or should have.

And it was a careful balance for us. We had to make sure that we didn't swing the pendulum too far the other direction as well, because we wanted to take advantage of the BHR introduction. And I think we've got that balance getting back to about right. I guess time will tell. The next quarter will tell us some more information on that. But, hopefully, we've got the balance point to where we think it should be.

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**Raj Denhoy** - *Bear Stearns - Analyst*

Fair enough. Thank you.

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**Operator**

We will now go to Mark Mulikin with Piper Jaffray.

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**Mark Mulikin** - *Piper Jaffray & Co. - Analyst*

Hello, guys, can you hear me?

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**David Illingworth** - *Smith & Nephew plc - CEO*

Yes, we can.

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**Mark Mulikin** - *Piper Jaffray & Co. - Analyst*

Great. Dave, on the Negative Pressure Wound Therapy market, I was wondering what are your customers telling you as far as what deficiencies they see in the existing competitor's offering. And, for example, is the foam really that important? I think that's the key differentiator that the one competitor is pointing too. And I was just wondering if customers really think that's important.

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**David Illingworth** - *Smith & Nephew plc - CEO*

I think it's a great question. I love these customer-focused questions, because it's how we think. Our customers are telling us that they want to make sure that this product is competitive. We don't here a lot about foam and not foam, or anything like that. Our customers want to make sure that it's going to work clinically. Most of the customers that are interested in this product are going through trials of their own to make sure that they do the proof statements on whether or not it has the clinical efficacy associated with it. So I think probably foremost our customers want to make sure in their minds that the product is going to work clinically.

Secondly is that they'd love to have a competitor. Think about it; they would love to have a competitor. I think it's a pretty consistent comment from the customer base. Not that the Company that is currently bringing these products to the market is not doing a good job, but you always want competition; it makes everybody good. And I think those are the two overriding things that we're hearing from our customers. Let's make sure it works clinically and be competitive, and this industry needs some competition.

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**Mark Mulikin** - *Piper Jaffray & Co. - Analyst*

Okay. And then just over on the [schedule] operating room side, are you seeing any softness in the market with the weakness in the economy and the problems in the credit market?

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**David Illingworth** - *Smith & Nephew plc - CEO*

No, I don't think any thing related to that specifically. These are pretty long cycle type things in a hospital setting. If you think about these large capital acquisitions in a hospital, they go through a yearly type of a cycle. I think you're going to have to wait awhile to see any cause and effect there.

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**Mark Mulikin** - *Piper Jaffray & Co. - Analyst*

Okay.

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**David Illingworth** - *Smith & Nephew plc - CEO*

Thank you. Appreciate it. Yi-Dan, do you have a question?

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**Yi-Dan Wang** - *Deutsche Bank - Analyst*

I have a question on the Plus business, or how you're integrating that. Can you give us some sense of where you are with the dis-synergies and when we can see that bottoming out and then start to see net synergies coming back? So I suppose by the time the dis-synergies bottom out, then the business ought to be getting to market growth rates, and then when you could expect it to exceed market growth rates?

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**David Illingworth** - *Smith & Nephew plc - CEO*

Do you want to take a shot at it?

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

Yes, Yi-Dan, we're actually pretty well getting on with this integration; it's proceeding pretty well. But as we said at quarter three, we did slightly underestimate the length of time that dis-synergies were going to last when we put the initial plan together. In the scheme of things, I think just keep this thing in context, we're jolly happy with the way this thing is going. And what integration you've seen, or observed as a analyst that hasn't had a few surprises along the way? I think this is in this category. So we're jolly happy with it.

We've signaled into 2008 deliberately a little vaguely, Yi-Dan, because in the real world it's quite hard -- I know the spreadsheets love to have the precision, but it's a lot harder in the real world to be that precise. So we've said into 2008 and, frankly, we're reluctant to be any more precise.

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**David Illingworth** - *Smith & Nephew plc - CEO*

I think just a comment that our costs synergies are right on target. The fact that we now have these businesses out there and we're training them and we're getting them motivated to actually say the word Smith & Nephew, or say the word Plus, when you come from one side or the other. There's a lot of psychology here and emotions and we've been competing against each other in Europe for a long time. And you need to get over those hurdles. And I think we're making good progress.

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**Yi-Dan Wang** - *Deutsche Bank - Analyst*

Just a follow up to that. Do you think you will finish buying out those minorities in Q1?

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**David Illingworth** - *Smith & Nephew plc - CEO*

We're awfully close to --

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

You know, it's a trade-off, Yi-Dan. We could have bought them all out very quickly, but it's a negotiation. So it comes down to how much you're prepared to pay, how much are they demanding and what's the trade-off. So it's actually not very helpful to put yourself in a box because the other side is probably listening to this call and thinking, yes, great, I've got them. So it's a trade-off. We're going to work our way through 2008 and do it rationally.

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**Yi-Dan Wang** - *Deutsche Bank - Analyst*

Okay, thank you. I have a burning second question, a question one, honestly.

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

Third question, Yi-Dan.

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**Yi-Dan Wang** - *Deutsche Bank - Analyst*

The Repair business, that's slowed down quite dramatically in the fourth quarter from around 20% to only 9%. Can you talk about what's behind that.

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**David Illingworth** - *Smith & Nephew plc - CEO*

I'm not sure that it did.

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

There's some slowing. It's Repair and Endo we're talking about here.

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**David Illingworth** - *Smith & Nephew plc - CEO*

Yes, I know exactly. But we don't know what the market growth rate -- are you talking about our business, or the market?

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**Yi-Dan Wang** - *Deutsche Bank - Analyst*

Your business, yes, Endoscopy, specifically for the Repair.

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

There's been a slight slowing, Yi-Dan. It's down to a couple of things. One is --

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**David Illingworth** - *Smith & Nephew plc - CEO*

Are you talking about for the quarter?

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

For the quarter.

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**David Illingworth** - *Smith & Nephew plc - CEO*

I'm sorry. Now I understand where you're coming from. No, go ahead, I'm sorry.

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

It's down to partly the comparator in the quarter was quite strong, as we pointed out last time. Partly, but not hugely materially, there is the CALAXO withdrawal from the market where there were sales last year which go into the margin. And that, plus a little bit of warp and weft, is really the explanation. We're not concerned with that. We think that our Repair business is doing fine.

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**David Illingworth** - *Smith & Nephew plc - CEO*

Yes, we were solid double-digit growth, mid-teens growth in that business for the year. And it's a lot easier to look at the year and make some judgment as to how the business is doing and the market in general. So actually, we're feeling pretty good about the Repair business.

Thank you. Up front, here.

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**Martin Wales** - *UBS - Analyst*

Martin Wales, UBS. Firstly, a question for Adrian. I can understand exactly why you've slowed the buyback. Perhaps, given current conditions, shouldn't you be more aggressive and just put it on hold for a while, whether you consider that?

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

Martin, we did consider it. We did a review which said, look, it's time to review it, let's look again at the calculations. And it's about -- we want to have an appropriate rigorous balance sheet. Investors on behalf --you like us to have an appropriate, rigorous balance sheet. So it's a question of balance to us and we felt this was the right balance.

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**Martin Wales** - *UBS - Analyst*

Okay. And a general question for Dave. You've talked a bit recently about this continuum of care and, of course, traditionally your business units have sold things very much in silos. Are you any further along the line working out how you really get that continuum of care across to the customer?

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**David Illingworth** - *Smith & Nephew plc - CEO*

Yes.

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**Martin Wales** - *UBS - Analyst*

Can you give us, perhaps, some detail?

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**David Illingworth** - *Smith & Nephew plc - CEO*

I feel very passionately about this, because I think it's the way -- I know it's the way our customers view their world. A surgeon -- when a patient comes in, they're thinking of a disease state; they're not thinking of a product or a sales rep bringing a product into their office or to the surgical theater. And that's how we have to look at the world in order to really differentiate ourselves with these customers and be more effective.

This is the first year ever that we had our kick-off meeting in the U.S. with all three of our Orthopedic businesses under one roof. 1,700 people in one place talking about how they collaborate to be able to differentiate themselves in the eyes of the customer and work better together. I think it's incredibly powerful.

We still have a long way to go because we do have three different businesses and there's some value in having that focus as well. You have different growth rates and there's different strategic focus of the different businesses, but if you have that focus so that you have real laser beam type sales channels and marketing teams, and you're very close to the customers in development in these silos, if you can do that and also collaborate at the same time and be able to help each other bring a set of clinical solutions to a surgeon, I think it's highly powerful. It really helps differentiate ourselves in the marketplace.

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**Martin Wales** - *UBS - Analyst*

Do you think about it in terms of extra investment and then a timeframe for recovery or not? Or it's just reallocation of existing resources?

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**David Illingworth** - *Smith & Nephew plc - CEO*

Well, right now we're not really thinking of it that way. We're thinking of it, how do we just share and how do we be more collaborative. In fact, the theme of the meeting in the U.S. was Collaborate '08. And that really is the theme; it wasn't about moving resources around or anything like that. It was, let's start by making sure that we're more collaborative in what we do and that we keep the surgeon in the front of our mind, the customer in the front of our mind. It's not about our products and our divisions and Group Head Office, or anything like that.

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

I've one point that might be specific to your question, Martin. Within the EIP program a number of the initiatives do involve centralization. So centralizing the Group operations and manufacturing is something we're making reasonably good progress on. Centralizing IT is another area. So in those areas, yes, there is investment and it's part of the EIP investment.

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**David Illingworth** - *Smith & Nephew plc - CEO*

I'll give you one more example, if I may, because obviously I love this part of it. We used to have these large educational meetings for surgeons, for instance, where we might have a Knee meeting for our Reconstructive business. And the surgeons would come and get educated on the products and the techniques and the clinical solutions. We now have all of our different businesses participate in that because a surgeon, one day, might be doing a joint replacement and the other day might be doing Arthroscopy. And he's thinking of it in terms of what is the clinical solution for this patient and to be able to go and see it all in one place.

And especially a Company like Smith & Nephew has marketing leading positions across these different areas. We are the largest Arthroscopy Company in the world. We're the leader in Sports Medicine. So, let that help leverage our Reconstructive business. We're the leader in BHR, in Hip Resurfacing. Let that help leverage our Trauma business. And we're putting a lot of focus on that because I think it just gives us a lot of leverage.

Yes.

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**Hans Sternby** - *Dresdner Kleinwort - Analyst*

Yes, you -- Hans Sternby, Dresdner. You mentioned the Trauma business and, in fact, it's been a bit weaker, a bit slower for some time and you say today you are going to improve it. And I just wonder if you could give an update on what the issues are, what the problems are and how you are going to get growth up, please.

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**David Illingworth** - *Smith & Nephew plc - CEO*

Well, the only problem is we're not improving it fast enough. Actually, we've been improving it for a number of years now. I guess we're our own worse critic sometimes. We look at it at a point in time. It's still not performing quite like we would like it too. But clearly, it's performing at a much higher level than it has in the past.

We divisionalized, got a strong focus in that business, we have a dedicated sales force and those efforts have paid off actually over the last three or four years and they continue to pay off. And we're growing broadly at the market rate. The issue for us is we don't like growing at the market rate. We want to grow faster than the market segments that we participate in because that's what we've told you we want to do. And that's the source of the disappointment.

How do we do that? I think we need to continue to deploy more sales resources in the U.S. I think that's going to be an important thing for us in 2008 is to continue to find the places we need to deploy dedicated sales resource. And I think that will make a big difference for us.

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**Hans Sternby** - *Dresdner Kleinwort - Analyst*

And a follow up. How do you find competition versus Synthes in this area?

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**David Illingworth** - *Smith & Nephew plc - CEO*

I think Synthes is the market leader and they're a great competitor. They have a dominant market share on a global basis and they've very good at what they do. So they're always going to be a competitor. But that doesn't mean that they can't be beaten in places and that's our goal. There's really three companies right now that are the players in Trauma; it's Synthes and Striker and us. And we're going to continue to battle that out in world for a little while, I think. But they're a very good competitor, very good.

Okay, I don't know, Charles. Okay, we have one more by Charles.

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**Charles Weston** - *Nomura Code - Analyst*

Thanks very much. It was just on the product pipeline for 2008. A slide that you sometimes put in on what you're expecting to launch in various different quarters wasn't here. And I was wondering if you could just pick out some novel technologies, or products, or extensions that you think are really going to make a difference in 2008.

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**David Illingworth** - *Smith & Nephew plc - CEO*

We didn't do that by design because we're actually going to go through it pretty thoroughly at the Academy meeting in just a few weeks. So we thought the emphasis really should be on our results at this meeting and new products at the Academy. I think the new Cup System is going to -- the R3 [Escabular] Cup System is going to be a very good product for us. There are some product extensions as a result of our investment in metal and metal technology.

I don't know the exact dates and I'm not going to give you a date here today, but I think in the near future, the near term, those are going to be things that we're very excited about in terms of follow-on products in BHR. The nice thing about having 80,000 procedures done already in Hip Resurfacing is that we've moved on to further generations and further designs, and ways to improve and take advantage of the Resurfacing technology. And I think you'll see some of those things come in the near term as well.

Adrian, any others that you would note?

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

Well, I guess, in the Wound area, [11AG] we're going to see.

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**David Illingworth** - *Smith & Nephew plc - CEO*

The silver dressings.

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

I guess it's probably better to say we'll come back in quarter one after AOS and we'll give you the -- rather then dribbling it here.

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**David Illingworth** - *Smith & Nephew plc - CEO*

Sorry we're not a little better prepared for you on that.

Okay, is that -- do we have any more on --? Okay.

**Operator**

We have now one question from Ed Ridley-Day with Lehman Brothers. Please go ahead.

**Ed Ridley-Day** - *Lehman Brothers - Analyst*

Thank you, good afternoon. I was just following on with the Trauma questions that we've already had. Looking at the Fluid Therapy business and also EXOGEN, could you talk a little bit more to the pressures on reimbursement in that market?

And also whether you believe that you can continue to see double-digit growth in Clinical Therapies, near to mid term, or do you perhaps see further pressure on the growth rate?

**David Illingworth** - *Smith & Nephew plc - CEO*

Let me take them backwards. I think we will continue to see some pressure on the growth rates in that segment, due to some reimbursement issues and also due to some new products that will be -- that are currently under evaluation, in the pipeline for FDA approval. And I think that you'll see some pressure on the growth rates as a result of that. I think we saw it in 2007; we'll continue to see it. I think it's pretty safe to predict that we'll see double-digit growth rates for us in that business. But we're not coming out specifically and giving a number, but I would think that we'd be able to see double-digit growth rates there, Adrian. I think it's --

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

You know how reluctant I am to say anything about forecasts.

**David Illingworth** - *Smith & Nephew plc - CEO*

Yes, I know. I'm in trouble now, actually. But I think the indication is that we're doing very well. We're taking market share. We've gone -- five years ago we were not even on the map with our Bone Stimulation products and our Joint Fluid Therapy. And we developed a very unique set of products, and a very unique business model and now we've moved into the number two position in Joint Fluid Therapy. That's under some pressure with some new product introductions coming in the pipeline.

And EXOGEN with some reimbursement as well and -- but the EXOGEN unit is now the number one unit in the marketplace; it's the market leader. And I -- it would have been hard to predict that we would have been able to achieve the market position with those products that we currently have. Retrospectively, it all makes perfect sense, because we invested in a very unique business model that made sense to our customers. And, again, I think that's the key; understand what your customer needs are and then go out and try and address them.

**Ed Ridley-Day** - *Lehman Brothers - Analyst*

That's very helpful, thanks.

**David Illingworth** - *Smith & Nephew plc - CEO*

Thank you, Ed.

**Operator**

We will now move to Michael Junging, Merrill Lynch. Please go ahead.

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**Michael Junging** - *Merrill Lynch - Analyst*

Good afternoon, everybody. I have a question on the acquisition. [Quadratec] is for sale and, given that you've put in a better reach for your Wound Care business in the United States, can we expect a large acquisition over the next 12 months?

And on acquisitions, what comfort can you give us that you will not overpay and what valuation criteria you intend to use for future acquisitions?

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**David Illingworth** - *Smith & Nephew plc - CEO*

Well, I'll tell you what, I'll answer the only part of that question that I can answer, which is the very last part.

We think we have a very healthy set of things that we're looking at in terms of potential acquisitions, both very small and large. The two things that we typically look for are -- well, three things really. One is, does it make compelling sense for us strategically. Because no matter who you acquire, what you acquire things are going to go wrong, and they always do. And it's very, very important that if it makes great compelling strategic sense for you, you will find ways to solve the problems in an acquisition. And I think that's the first thing that we do, is we make sure that it has -- is strategically compelling for us so that our entire team is dedicated to making sure that it works.

Secondly is it needs to make financial sense and it has to bring value back to us and the shareholders. And we're pretty disciplined about that. I think most of you -- I would hope most of you would give us high marks on that, if I'm not being overly presumptuous here. I think we're pretty disciplined in that area. We know there is always another day and we try to take a very -- a look at these opportunities through very clear glasses, not rose-colored lenses. Because the lenses in an acquisition become rose-colored quickly, and you don't realize it's rose-colored. So we have some discipline there.

And the third thing is, obviously, it needs to be in our space or some adjacent space. There are some adjacencies that we often look at, we continually look at, that are high-growth segments that are attractive to us. And that's our criteria in general. But as far as commenting on any specific potential acquisition, we would never do that.

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**Michael Junging** - *Merrill Lynch - Analyst*

And just a follow up on acquisitions. Could you comment on whether this deal would have to be accretive in the first year or the second year? Because the biggest risk is there are some unique assets out there and you overpay and shareholders don't take it well.

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**David Illingworth** - *Smith & Nephew plc - CEO*

It would depend. It would really depend on how strategically compelling it was, and the profile of the business. We want it to be as accretive as quickly as possible and that's where we start. But it really -- every one's different. All of these opportunities are different and they go through long, seldom predictable, paths of negotiation and thought processes and we just try and keep calm and focused and disciplined in the way that we look at them.

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**Michael Junging** - *Merrill Lynch - Analyst*

Great. Thank you.

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**David Illingworth** - *Smith & Nephew plc - CEO*

We have time for one more question. We have one more? Okay, thank you.

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**Operator**

We will move now to Jason Wittes with Leerink Swann. Please go ahead.

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**Jason Wittes** - *Leerink Swann & Co. - Analyst*

Hello. Thank you very much. In terms, David, Wound Pressure Management I understand that you're just rolling things out now, but there was a competitive bidding process here in the U.S. with CMS. Were you guys able to partake in that?

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**David Illingworth** - *Smith & Nephew plc - CEO*

Well, we're not giving any information commercially at all on this market segment. So, we haven't launched the project yet. So, I apologize again for not giving you anything, but we're trying to be very, very consistent.

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**Jason Wittes** - *Leerink Swann & Co. - Analyst*

But you do have sales in the U.S. at this point, so there is some product available at this point, just that you haven't launched your full product line?

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**David Illingworth** - *Smith & Nephew plc - CEO*

Yes, we do have -- that's correct.

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**Jason Wittes** - *Leerink Swann & Co. - Analyst*

Fair enough.

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**David Illingworth** - *Smith & Nephew plc - CEO*

All right, thank you.

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**Jason Wittes** - *Leerink Swann & Co. - Analyst*

Just quickly on Knees; they did sort of pop back this quarter. You mentioned that that's probably due to reorganizing the sales force, but you do still have several new products out there. Were they at all contributing to this quarter, or was it really just the sales force switch?

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**David Illingworth** - *Smith & Nephew plc - CEO*

Well, it's both; they go hand in hand. We were -- we had a lot of management focus on the independent reps to make sure that there was some balanced selling going on. And I think balanced selling in terms of their time spent on these Knee accounts, or surgeons that were doing knees and also balanced in terms of making sure they sold the entire portfolio of products. We have an exciting line-up of new products in Knees and we just didn't feel like we were getting the traction that we deserved. And like I said, hopefully, we're at the right level of emphasis now and the pendulum is where it's supposed to be. So we'll see.

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**Jason Wittes** - *Leerink Swann & Co. - Analyst*

One last question.

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**David Illingworth** - *Smith & Nephew plc - CEO*

Okay, yes.

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**Jason Wittes** - *Leerink Swann & Co. - Analyst*

AAOS is coming up; is there anything we should be looking forward to (inaudible) for Smith & Nephew?

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**David Illingworth** - *Smith & Nephew plc - CEO*

I think you'll see a couple of things. Generally, you're going to see a lot more collaboration between our key [eight] businesses. You're going to see -- in the past you would go into the AAOS and the booths of the Smith & Nephew divisions would look like they were completely different booths and different companies by design.

And now, by design, they are going to look like we actually work together and that we have the customer in mind. So I think you'll see a stark difference between how you saw Smith & Nephew in the past and how you see them this year. And I think that will pay off for us in terms of the customer. And that's probably the biggest thing you'll see noticeably.

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**Jason Wittes** - *Leerink Swann & Co. - Analyst*

Great, thanks.

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**David Illingworth** - *Smith & Nephew plc - CEO*

Great, thanks. Thank you very much. I appreciate everybody's time.

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