Smith & Nephew

Street gives little credit to Ortho, but we see value there

Reiterate Rating: BUY | PO: 1,320 GBp | Price: 1,065 GBp

17 January 2024

Equity

EU MedTech value opportunity + signs of recovery = Buy

Despite the c20% share price recovery since October's 10-year low, we think Smith & Nephew remains one of the few value opportunities in EU MedTech (c13x FY24E EV/EBIT vs sector c19x), with potential upside since the share price remains c10% below the COVID trough. While the Orthopaedics challenges have been a big overhang for the equity story, we are now seeing some light at the end of the tunnel: Supply chain has improved, and efforts are focused on sales reps' efficiency. As we start to see normalisation, we look at several opportunities for Ortho. CORI robot, cementless mix shift and the AETOS shoulder could all contribute materially to group sales and profits. Lastly, our reverse SOTP suggests to us no value for the Ortho business in S&N's current market value, which is unfair in our view. New PO (£13.2/$34) £11.8/$27 prior) is driven by roll-over of our DCF and multiple approaches (see explanation on pages 5-6).

3 sources of upside for Ortho: CORI, cementless, shoulder

We deep-dive into the 3 largest opportunities for Orthopaedics, which is an under-appreciated asset, in our view. 1) The increase in robotic adoption for joint replacement is a key growth driver for CORI. A +30% increase in the CORI installed base in FY24-26E could add +50bps to group revenues or >100bps to group EBIT pa, driven by consumables (e.g., implants) and services. 2) S&N narrowed the portfolio gap with competitors in 2021 with its cementless offering. Every 1% market share gain in cementless could improve group EBIT by 80-90bps. 3) Launched in 2023, the AETOS shoulder implant could increase group EBIT by 60-70bps for every 1% share gain.

Street assumes no value for Ortho, undeserved we think

As we think investor pushback is focused on Orthopaedics, we assess what the Street prices for this business with a SOTP approach. Using the average multiples for Sports/Wound listed peers, Ortho would have almost no EV (c.2x FY24 EBITA). Even if we assumed Orthopaedics to be valued at a discount to listed peers, the company's current market value would imply an undeserved discount to peers for Sports/Wound franchises despite leading market position. Unfair, in our view.

Estimates (Dec) (USD)	**2021A**	**2022A**	**2023E**	**2024E**	**2025E**
EPS (Adjusted Diluted)	0.81	0.82	0.86	0.93	1.13
EPS Change (YoY)	25.5%	1.1%	5.5%	7.9%	21.6%
Dividend / Share	0.23	0.23	0.24	0.26	0.32
Common EPS (Adjusted Diluted - US$)	1.62	1.64	1.73	1.86	2.26
Common Dividend / Share (US$)	0.46	0.46	0.49	0.53	0.64
Valuation (Dec)					
P/E	17.8x	15.7x	15.7x	14.6x	12.0x
Dividend Yield	1.70%	1.70%	1.80%	1.94%	2.36%
EV / EBITDA*	10.6x	11.3x	10.6x	9.75x	8.52x
Free Cash Flow Yield*	4.56%	1.40%	5.85%	7.63%	6.29%

* For full definitions of *iQmethod*SM measures, see page 35.

Key Changes

(US$)	Previous	Current
Price Obj.	1,180.00p	1,320.00p
2023E Rev (m)	5,526.4	5,536.9
2024E Rev (m)	5,759.2	5,837.3
2025E Rev (m)	6,051.2	6,134.3
2024E EPS	0.91	0.93
2025E EPS	1.11	1.13

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Stock Data

Price (Common / Common)	1,065 GBp / 26.98 USD
Price Objective	1,320 GBp / 34.00 USD
Date Established	17-Jan-2024 / 17-Jan-2024
Investment Opinion	A-1-7 / B-1-7
52-Week Range	887.00 GBp-1,316 GBp
Market Value (mn)	9,311 GBP
Shares Outstanding (mn)	874.2 / 437.1
Average Daily Value (mn)	19.31 USD
Free Float	99.9%
BofA Ticker / Exchange	SNNUF / LSE
BofA Ticker / Exchange	SNN / NYS
Bloomberg / Reuters	SN/ LN / SN.L
ROE (2023E)	13.8%
Net Dbt to Eqty (Dec-2022A)	48.0%
ESGMeter™	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BofA ESGMeter Methodology".

Timestamp: 17 January 2024 12:30AM EST

iQprofile℠ Smith & Nephew

Key Income Statement Data (Dec)	2021A	2022A	2023E	2024E	2025E
(US$ Millions)					
Sales	5,212	5,215	5,537	5,837	6,134
EBITDA Adjusted	1,327	1,245	1,325	1,446	1,654
Depreciation & Amortization	(391)	(343)	(352)	(377)	(404)
EBIT Adjusted	936	902	973	1,068	1,250
Net Interest & Other Income	(79.0)	(49.0)	(66.0)	(65.4)	(56.3)
Tax Expense / Benefit	(147)	(139)	(154)	(191)	(227)
Net Income (Adjusted)	710	714	753	812	967
Average Fully Diluted Shares Outstanding	878	873	873	873	854
Key Cash Flow Statement Data					
Net Income (Reported)	524	223	630	690	841
Depreciation & Amortization	391	343	352	377	404
Change in Working Capital	(150)	(535)	(113)	136	(211)
Deferred Taxation Charge	0	0	0	0	0
Other CFO	112	437	128	126	130
Cash Flow from Operations	**877**	**468**	**997**	**1,330**	**1,165**
Capital Expenditure	(408)	(358)	(369)	(493)	(494)
(Acquisition) / Disposal of Investments	(2.00)	(2.00)	(5.00)	(5.00)	(5.00)
Other CFI	(281)	(112)	10.0	15.0	15.0
Cash Flow from Investing	**(691)**	**(472)**	**(364)**	**(483)**	**(484)**
Share Issue / (Repurchase)	14.0	(152)	0	0	(275)
Cost of Dividends Paid	(329)	(327)	(201)	(212)	(229)
Increase (decrease) debt	(351)	(467)	0	0	0
Other CFF	21.0	20.0	0	0	0
Cash Flow from Financing	**(645)**	**(926)**	**(201)**	**(212)**	**(504)**
Total Cash Flow (CFO + CFI + CFF)	**(459)**	**(930)**	**432**	**634**	**176**
FX and other changes to cash	(13.0)	(10.0)	0	0	0
Change in Cash	(472)	(940)	432	634	176
Change in Net Debt	121	473	(432)	(634)	(176)
Net Debt	2,049	2,522	2,090	1,456	1,279
Key Balance Sheet Data					
Property, Plant & Equipment	1,513	1,455	1,454	1,487	1,503
Goodwill	2,989	3,031	3,009	3,016	3,016
Other Intangibles	1,398	1,236	1,126	1,052	970
Other Non-Current Assets	596	388	393	398	403
Trade Receivables	1,290	1,301	1,301	1,372	1,442
Cash & Equivalents	1,290	350	782	1,416	1,593
Other Current Assets	1,844	2,205	2,381	2,218	2,337
Total Assets	10,920	9,966	10,447	10,959	11,264
Long-Term Debt	2,848	2,712	2,712	2,712	2,712
Other Non-Current Liabilities	373	280	270	260	250
Short-Term Debt	491	160	160	160	160
Other Current Liabilities	1,640	1,555	1,618	1,662	1,640
Total Liabilities	5,352	4,707	4,760	4,794	4,762
Total Equity	5,568	5,259	5,688	6,165	6,502
Total Equity & Liabilities	10,920	9,966	10,447	10,959	11,264
Business Performance*					
Return On Capital Employed	8.24%	8.67%	9.51%	9.63%	10.9%
Return On Equity	13.1%	13.2%	13.8%	13.7%	15.3%
Operating Margin	18.0%	17.3%	17.6%	18.3%	20.4%
Free Cash Flow (MM)	542	166	692	902	728
Quality of Earnings*					
Cash Realization Ratio	1.24x	0.66x	1.32x	1.64x	1.20x
Asset Replacement Ratio	1.04x	1.04x	1.05x	1.31x	1.22x
Tax Rate	17.2%	16.3%	17.0%	19.0%	19.0%
Net Debt/Equity	36.8%	48.0%	36.7%	23.6%	19.7%
Interest Cover	11.7x	11.3x	10.9x	12.0x	14.0x

* For full definitions of *iQmethod*℠ measures, see page 35.

Company Sector

Medical Technology

Company Description

Smith & Nephew (UK) develops and markets advanced medical devices. The company operates in areas such as orthopaedics knee and hip implants and trauma devices, endoscopy instruments for access to joints (arthroscopy), cameras to assist surgery and blades for resecting tissue, and Advanced Wound care, advanced dressings, devices and biologics geared towards the treatment of chronic wounds such as leg ulcers and pressure sores.

Investment Rationale

Smith & Nephew remains one of the few value opportunities in EU MedTech (c13x FY24E EV/EBIT vs c19x for the sector), with little downside risk. While the Orthopaedics challenges have been a big overhang for the equity story, we are now seeing some light at the end of the tunnel: Supply chain and commercial delivery have improved, and efforts are focused on sales reps efficiency. We have Buy rating as we believe more value sits within Orthopaedics business.

Stock Data

Shares / Common	2.00
Price to Book Value	2.1x

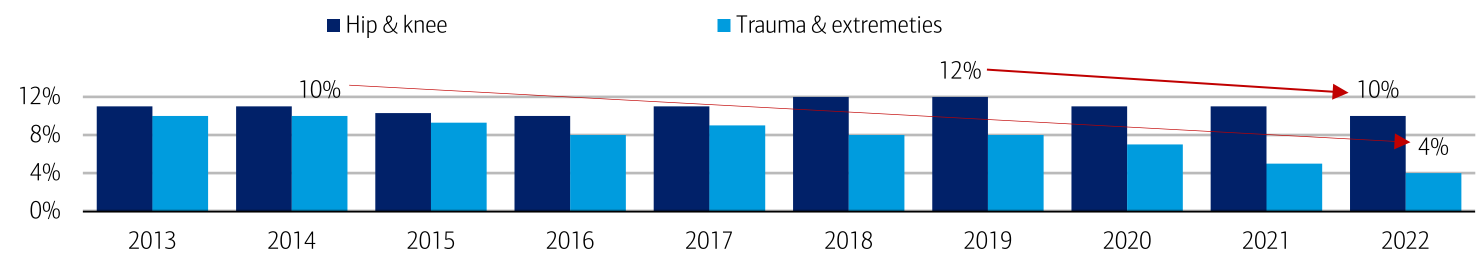
Key Changes

(US$)	Previous	Current
Price Obj.	27.00	34.00
2023E EPS	1.72	1.73
2024E EPS	1.81	1.86
2025E EPS	2.21	2.26

Contents

Smith & Nephew in 5 charts

Exhibit 1: Since 2018, S&N has been consistently losing share in the hip & knee, and trauma & extremities markets
S&N market share, 2013 - 2022



Source: S&N annual reports

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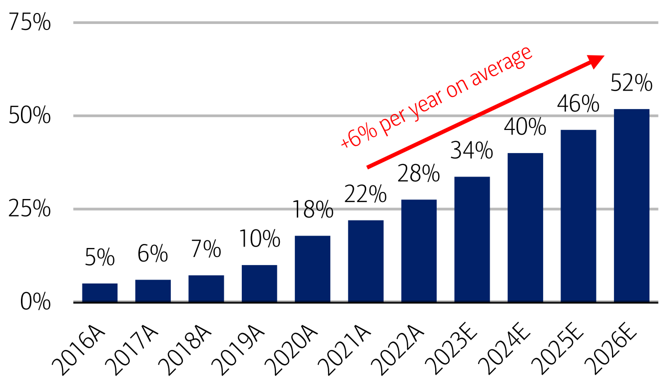
Exhibit 2: Opportunity #1: Robot penetration should accelerate over the coming years – CORI to add 0.9-1.3% to EBIT pa over FY24-26E
% US joint robotic penetration



Source: BofA Global Research estimates

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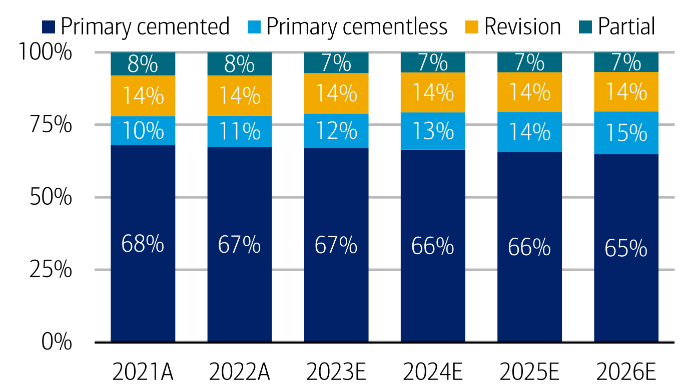
Exhibit 3: Opportunity #2: mix shift towards cementless - each 1ppt market share gain in cementless brings 80-90bps to group EBIT
US knee replacement procedures breakdown



Source: BofA Global Research estimates

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Exhibit 4: Opportunity #3: Entering the shoulder replacement market could add +60-70bps to group EBIT for each 1% market share gain
Scenario analysis for shoulder replacement, in USDmn

AETOS shoulder opportunity	21A	22A	23E	24E	25E	26E
Global shoulder replacement market ($mn)	1,331	1,491	1,700	1,862	2,038	2,232
% growth		12%	14%	10%	10%	10%
S&N market share in shoulder	0%	0%	0%	1%	2%	3%
Implied AETOS sales ($mn)	**0.0**	**0.0**	**1.7**	**18.6**	**40.8**	**67.0**
Annual Sales growth ($mn)		0.0	1.7	16.9	22.2	26.2
% Orthopaedics Sales growth impact		n.a	0.1%	0.8%	1.0%	1.1%
% Group Sales growth impact		**n.a**	**0.0%**	**0.3%**	**0.4%**	**0.4%**
% Group EBIT impact		**n.a**	**0.1%**	**0.6%**	**0.7%**	**0.7%**

Source: BofA Global Research estimates

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Exhibit 5: Our reverse SOTP shows that Street gives almost no value to Orthopaedics business
Reverse SOTP for Smith & Nephew, using listed peers, current equity value and BBG estimates, USDmn

Reversed SOTP Work	Group	Sports	Wound	Other	Ortho
BBG FY24 Sales ($mn)	5,812	1,809	1,685	(7)	2,324
BBG FY24 EBITA ($mn)	**1,050**	**540**	**510**	**(431)**	**431**
Margin (%)	*18.1%*	*30%*	*30%*	*N/A*	*19%*
EV/EBITA	13.3x	18.7x	17.1x	13.5x	2.1x
Enterprise Value ($mn)	**13,908**	**10,087**	**8,742**	**(5,821)**	**899**
Net Debt 24E	2,148				
Equity Value ($mn)	**11,760**				

Source: Bloomberg, BofA Global Research

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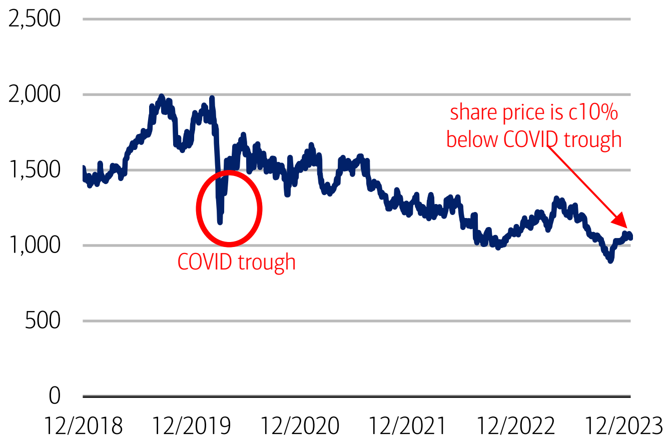
Valuation: New PO = £13.2

Current valuation leaves plenty of room for valuation potential upside

Exhibit 6: S&N share price is c10% below COVID selloff, implying limited potential downside from there
Smith & Nephew share price, GBPp



Source: Bloomberg, BofA Global Research

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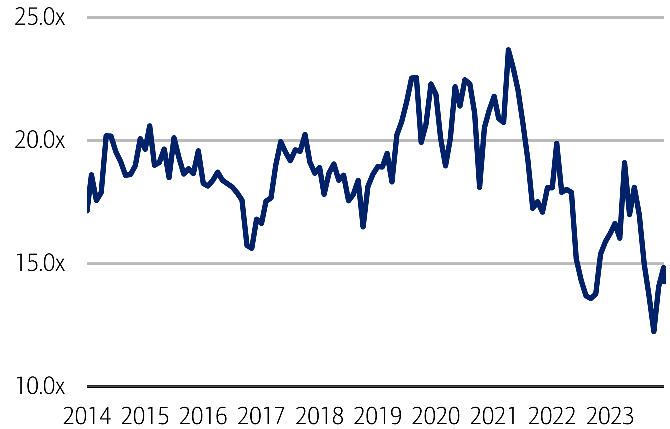
Exhibit 7: P/E valuation is close to its 10-year low level at c15x
Smith & Nephew 12m fwd P/E valuation, Bloomberg estimates



Source: Bloomberg, BofA Global Research

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Our new PO is set at £13.5

We increase our PO from £11.8 to £13.2 as 1) we roll-over our DCF and increase the terminal growth rate (from 1.5% to 2.0%) given topline growth acceleration at Smith & Nephew and 2) we also roll-over our multiple methodologies and slightly increase our target multiples (from 17.6X to 19.1x for P/E and from 11.2x to 12.1x for EBITDA) as we lower the sector discount from 20% to 15% given stronger growth and margin improvement.

Exhibit 8: P/E multiple increased from 17.6x to 19.1x
Target P/E based on 15% discount to EU MedTech average

P/E Calculation	2024E	2025E
Diluted EPSA	0.93	1.13
Portion of Year	100%	0%
NTM EPS	0.93	
NTM P/E	19.1x	
Value ($)	17.82	
USD:GBP	1.27	
Value (£)	**£14.01**	

Source: BofA Global Research estimates

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Exhibit 9: EBITDA multiple increased from 11.2x to 12.1x
Target EV/EBITDA based on 15% discount to EU MedTech average

EV/EBITDA Calculation	2024E	2025E
EBITDA	1,325	1,446
Portion of Year	100%	0%
NTM EBITDA	1,325	
NTM EV/EBITDA	12.1x	
EV ($)	15,997	
Net Debt - 2024	(1,456)	
Other Liabilities - 2024	(140)	
Market Cap ($)	14,401	
USD:GBP	1.27	
Value (£)	**£12.97**	

Source: BofA Global Research estimates

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Exhibit 10: PO increased from £11.8 to £13.2
Equally weighted methodologies

Value Per Share	
EV/EBITDA	£12.97
DCF	£12.65
P/E	£14.01
Average	**£13.2**

Source: BofA Global Research estimates

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Exhibit 11: We roll-forward our DCF and slightly increased our WACC (from 6.4% to 6.7%) to reflect higher risk-free rate (3.8% vs 3.4%). As Smith & Nephew starts to deliver on its ambition to achieve >5% organic growth per year, we increase our terminal growth rate from 1.5% to 2% (in-line with EU MedTech average). DCF fair value of £12.7

Our DCF values Smith & Nephew at £12.7/share

Assumptions	**FY23E**	**FY24E**	**FY25E**	**FY26E**	**FY27E**	**FY28E**	**FY29E**	**FY30E**	**FY31E**	**FY32E**	**FY33E**	**FY34E**
Effective Tax Rate	17.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%
Time of Year Remaining	0.00	1.00	2.00	3.00	4.00	5.00	6.00	7.00	8.00	9.00	10.00	11.00
Terminal Growth Rate	2.0%											
DCF Model	**FY23E**	**FY24E**	**FY25E**	**FY26E**	**FY27E**	**FY28E**	**FY29E**	**FY30E**	**FY31E**	**FY32E**	**FY33E**	**FY34E**
EBIT	825	917	1,094	1,170	1,293	1,366	1,438	1,510	1,584	1,658	1,736	1,818
Tax	(140)	(174)	(208)	(222)	(246)	(260)	(273)	(287)	(301)	(315)	(330)	(345)
NOPAT	**685**	**743**	**887**	**947**	**1,048**	**1,106**	**1,165**	**1,223**	**1,283**	**1,343**	**1,406**	**1,473**
Add Back: D&A	500	529	559	596	573	530	564	599	636	632	669	707
Gross Cash Flow	**1,185**	**1,272**	**1,446**	**1,543**	**1,621**	**1,637**	**1,729**	**1,822**	**1,918**	**1,976**	**2,076**	**2,180**
Change in Working Capital	(788)	(113)	136	(211)	(132)	(128)	(133)	(134)	(135)	(140)	(142)	(149)
CAPEX	(369)	(493)	(494)	(517)	(540)	(564)	(588)	(612)	(637)	(662)	(689)	(716)
Restructuring Costs	-	-	-	-	-	-	-	-	-	-	-	-
Base Year Share Buyback	-	-	(275)	(275)	(275)	(275)	(275)	(275)	(275)	(275)	(275)	(275)
Investing Cash Flow	**(1,157)**	**(606)**	**(633)**	**(1,003)**	**(947)**	**(967)**	**(996)**	**(1,021)**	**(1,047)**	**(1,077)**	**(1,106)**	**(1,140)**
Net Cash Flow	**29**	**665**	**813**	**540**	**673**	**670**	**733**	**801**	**871**	**899**	**970**	**1,040**
Discount Factor	1.00	0.94	0.88	0.82	0.77	0.72	0.68	0.64	0.60	0.56	0.53	0.49
Discounted Cash Flows	29	624	715	445	521	485	498	510	521	503	509	512
Sum of Specific Cash Flows	5,872											
Present Value of Terminal Value	10,415											
Net Debt - 2023	(2,090)											
Other Liabilities - 2023	(150)											
Company Value ($mn)	14,047											
USD:GBP	1.27											
Value Per Share (Diluted)	**£12.65**											

Source: BofA Global Research estimates

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Long awaited turnaround for Orthopaedics … finally there?

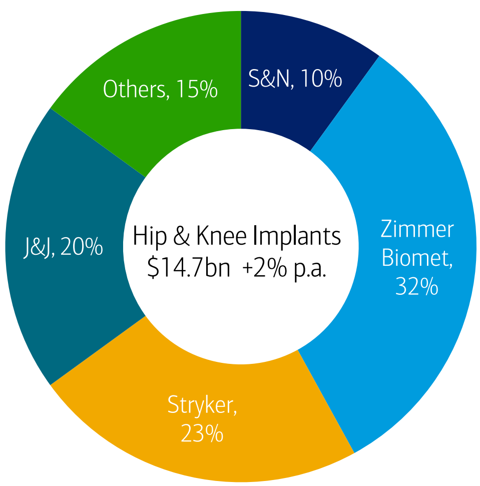
Summary: Smith & Nephew is the fourth global company in Orthopaedics behind US giants. Since 2015 for Trauma and 2020 in Hips/Knees, S&N has lost market shares due to supply chain issues, lack of commercial organisation and gap in portfolio. With its new strategic plan (12 Points Plan), the management team is addressing these issues, starting with the commercial organisation. As we start to see first benefits from it (order fulfil and instrument set deployment improvement, better sales reps organisation), we focus on growth opportunities in the next sections for Orthopaedics.

Overview of the orthopaedics business

Orthopaedics is a $27bn market growing +3-4% pa

The total orthopaedics market comprises hip and knee implants products ($14.7bn market, +2% pa), used to replace joints, and trauma and extremities products ($12.7bn, +5% pa), used to stabilise severe fractures and correct hard tissue deformities. Smith & Nephew is number four in this market behind US giants Stryker, Johnson & Johnson, and Zimmer Biomet.

Exhibit 12: S&N sits behind US Ortho giants for Hip & Knee Implants …
Hip & Knee Implants market in 2022, market share in value



Source: Smith & Nephew, BofA Global Research

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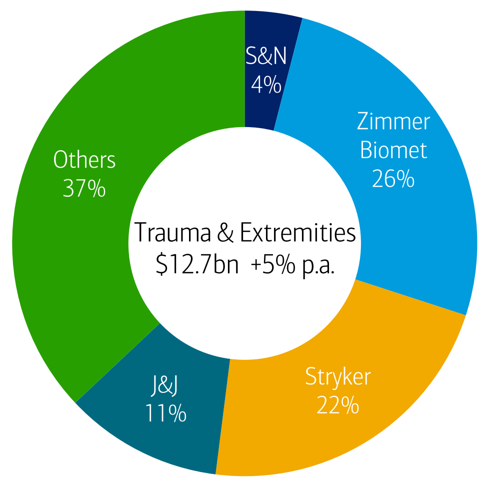
Exhibit 13: … as well as for Trauma & Extremities
Trauma & Extremities market in 2022, market share in value



Source: Smith & Nephew, BofA Global Research

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Hip & knee implants: most often used in hip and knee replacement surgery

Hip & knee implants are used to replace diseased, damaged, or worn joints, during hip and knee replacement surgeries. These are two of the most commonly performed orthopaedic surgeries and help patients with osteoarthritis and rheumatoid arthritis. In the US alone, it is estimated that c.800k hip and c.1bn knee replacements were performed in 2022.

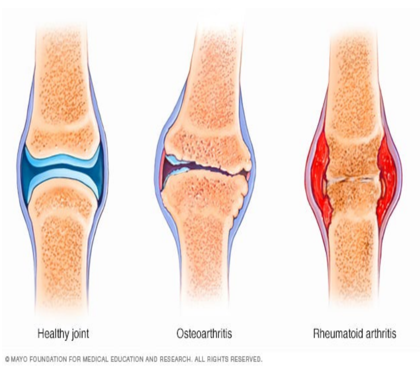
A normal joint is lined with cartilage, a flexible connective tissue that protects the bones from rubbing together and allows smooth movements. However, for patients with osteoarthritis and rheumatoid arthritis, the cartilage breaks down, causing pain, inflammation and stiffness in the joints.

While they are one of the safest and most reliable treatments in any area of medicine, hip and knee replacement surgeries are typically only recommended when non-surgical treatments have not been helpful. Alternatives to surgery include pain medication, modified exercise and weight loss.

During the operation, the surgeon removes the damaged cartilage and fit a replacement implant that functions much like a normal joint. The procedure usually takes an hour or two and is typically performed in a hospital setting, with the patient staying for one or two nights. Patients begin walking on the day the surgery is carried out and can typically return to normal activities within one to three months.

Depending on the extent of damage, hip and knee replacement surgery can be total or partial. In partial hip surgery, only the head of the femur is replaced, leaving the socket in the pelvis unchanged. In a partial knee surgery, only the knee compartment that is affected by arthritis is replaced.

Exhibit 14: Diseased knee joints lack cartilage
Healthy vs diseased knee joints



Source: Mayo Clinic

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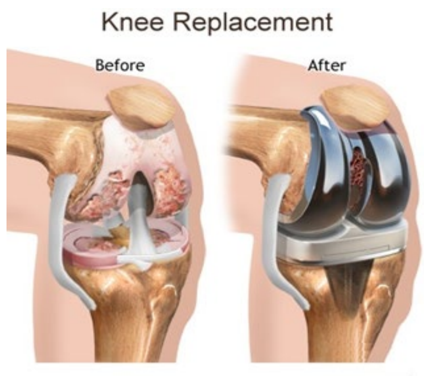
Exhibit 15: A knee implant
Illustration of a total knee replacement



Source: MedlinePlus

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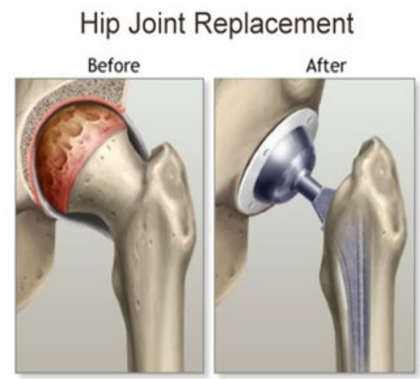
Exhibit 16: A hip implant
Illustration of a total hip replacement



Source: Medline Plus

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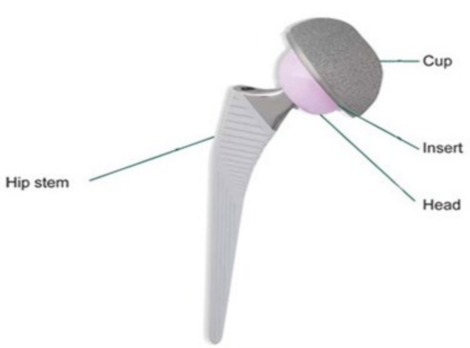
A hip implant has two parts: a metal or ceramic ball on a stem, which is inserted into the thigh bone for stability; and a metal cup (typically made of titanium) with an inner layer (commonly plastic), which is attached to the socket part of the hip joint and allows the implant to rotate smoothly. A hip implant used for partial replacement won't have the cup on top.

A knee implant procedure has three basic components: 1) resurface the top of the tibia (shin bone); 2) resurface the end of the femur (thigh bone); and 3) fit a plastic liner in the space between. There is also an optional component, which replaces the back of the kneecap that rubs against the thigh bone (patella). A knee implant used for partial replacement has the same components but the size will be smaller, as only side of the knee needs to be resurfaced.

Exhibit 17: The cup fits into the hip socket, whilst the stem inserts into the thigh bone
Labelled hip implant



Source: Implantcast GmbH

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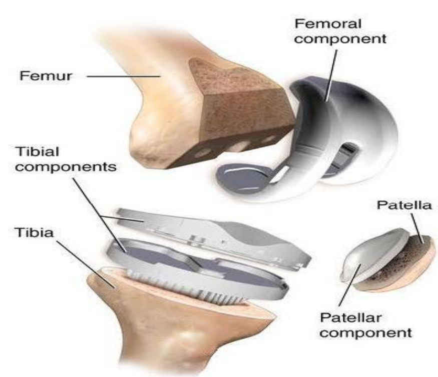
Exhibit 18: The components of a knee implant fit in between the shin and thigh bones
Labelled knee implant



Source: American Association of Hip and Knee surgeons

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Materials used in hip and knee implants include metal (usually titanium or cobalt-chromium), plastic, and ceramic (typically used to make the ball in a hip implant). Metal-on-metal hip implants (i.e., both the ball and the cup liner are made of metal) are rarely used now due to concerns over metal debris formation.

One important distinction of implants is that they can either be cemented or cementless. A cemented implant is held in place by a fast-curing bone cement (normally made of a material called PMMA) – this is more common. A cementless implant has a porous surface and press fitting is used to anchor it in the bone. New bone grows at the surface, fixing the implant. Once successfully placed, hip and knee implants should last at least 10 years before a replacement is needed.

Trauma & extremities: screws, plates, bone grafts for fractures & dislocations

This market refers to medical devices used to treat bone fractures and dislocations in arms, legs, hands and feet. The products include implants, screws, plates, nails, bone grafts and fixation devices.

Because of the nature of injury (i.e., caused by traumatic force), surgical procedures involve repositioning and stabilising broken bones, encouraging them to regrow in the right place. If the damage is too severe, surgeons may use implants, bone grafts and tissue transfers to reconstruct the limbs.

Exhibit 19: A selection of trauma and extremities products
Smith and Nephew's wrist plating system, great toe implant, circular fixation device and antegrade nail

Source: Smith and Nephew

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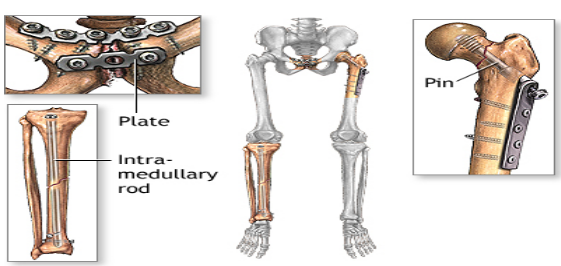
Smith & Nephew (S&N) bolstered its trauma & extremities segment with its acquisition of Integra LifeSciences in September 2020. At the time, the portfolio was highly complementary to its existing knee and hip implant offerings. In particular, it provided an entry point to shoulder replacement, and reconstruction of foot and ankle segments.

Exhibit 20: How plates, pins and intra-medullary rods are used
Illustration of bone fixation



Source: MedLine

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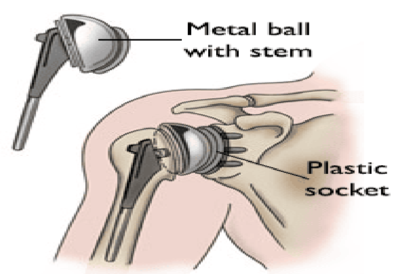
Exhibit 21: How a shoulder implant fits in replacement surgery
Illustration of shoulder implant



Source: American Academy of Orthopaedics Surgeons

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Orthopaedics is one of three franchises – 40% of group revenue in 2022

Orthopaedics is one of Smith & Nephew's three franchises and accounted for c.40% of group revenue in 2022. It sells a portfolio of hip and knee implants, trauma products, and surgical robotic technologies.

Exhibit 22: Snapshot of Smith & Nephew's Orthopaedics division – 4th global company behind US giants
At a glance – Smith & Nephew's orthopaedics division

	Knee implant	Hip implant	Trauma & Extremeties	Other Reconstruction
Description	Range of total and partial implants used to replace diseased, damaged or worn joints		Products used to stabilise fractrues and correct bone deformities caused by trauma	Robotics assisted enabling technologies that facilitate surgical procedures
2022 revenue ($mn)	899	584	543	87
2022 organic growth	6.8%	-0.2%	-2.6%	-1.8%
19-22 CAGR	-4.8%	-1.6%	3.6%	3.3%
Market size ($bn)	14.7		12.7	1
Market growth (p.a.)	LSD		MSD- HSD	HSD
Drivers	Aging population, increase in osteoarthritis, advance in replacement surgeries		Higher levels of physical activities, rising incidence of sports injuries and traffic accidents	Technological development, surgeon preference, growing needs for minimally invasive surgeries
Key competitors	#1st ZIMMER BIOMET 29% m.s.	#2nd stryker 23% m.s.	#3rd DePuy Synthes 16% m.s.	#4th S+N 7% m.s.
Smith & Nephew position (Market share in FY22)	4th (10%)		4th (4%)	3rd (15%)
Smith & Nephew key products	JOURNEY II Total Knee 	POLAR3 Total Hip 	EVOS Plating System SMART TSF Circular Fixator 	CORI Surgical System 

Source: Company Reports, BofA Global Research estimates

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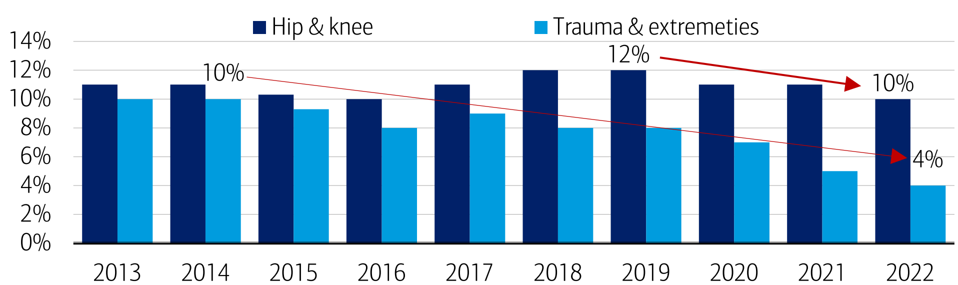
S&N has underperformed Ortho peers for some years

Smith & Nephew has remained the fourth global company in the orthopaedics market, but it started losing market share to its competitors in trauma from 2015 and in hip & knee from 2020. That year, all orthopaedic peers were hit hard by COVID and, while Smith & Nephew appeared to bounce back faster, subsequent growth lagged competitors. This meant it was unable to fully participate in the market's post-COVID recovery, driven by pent-up demand.

Exhibit 23: Since 2018, S&N has been consistently losing share in the hip & knee, and trauma & extremities markets
S&N market share, 2013 - 2022



Source: S&N annual reports

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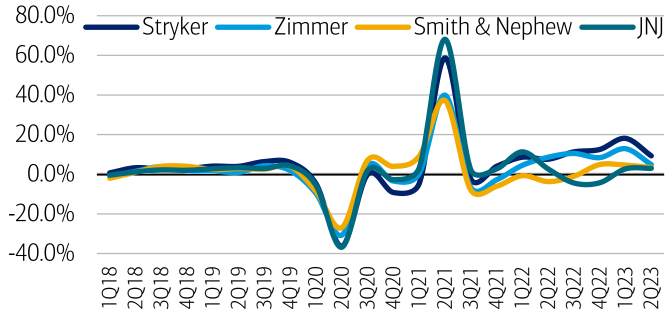
Exhibit 24: S&N's organic growth in hip implants has lagged peers since 2021
Quarterly hip CC growth rates, 2018 to date



Source: company reports, BofA Global Research estimates

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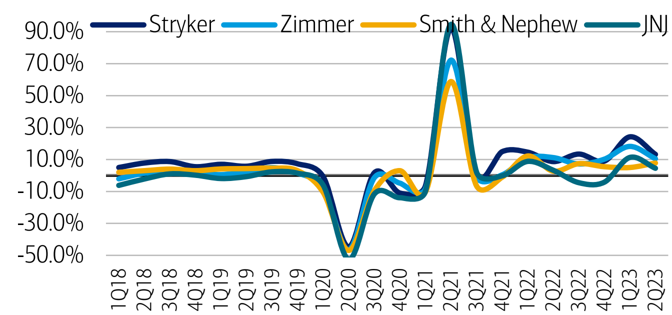
Exhibit 25: S&N's organic growth in knee implants has lagged peers since 2021
Quarterly knee CC growth rates, 2018 to date



Source: company reports, BofA Global Research estimates

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We highlight the issues facing the company in Ortho:

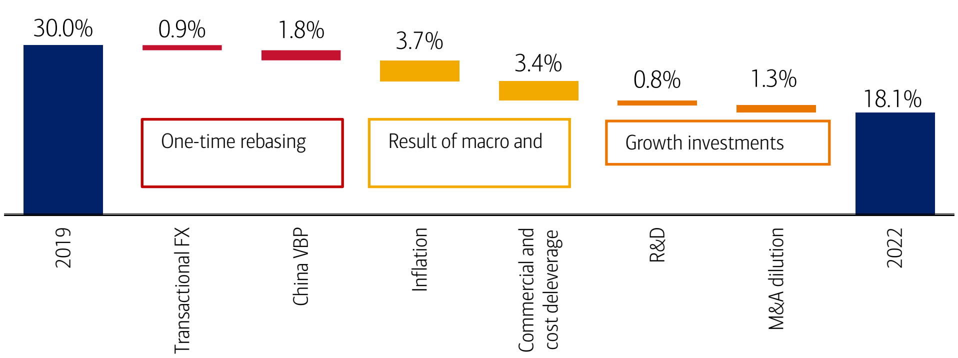
- **Inventory/capacity**: We believe the ineffective and poorly understood SIOP (Sales, Inventory and Operations Planning) process was a headwind. S&N didn't get the right information to allocate surgical sets in its warehouse, which was closest to the highest-volume operation rooms, pushing surgeons to switch to competitors to get sets on time. In addition, the company built capacity too far ahead of market demand. All of this resulted in a bigger-than-necessary inventory for the division and market share losses.

- **Sales reps**: Owing to the abovementioned issue, sales reps spent more time on inventory management than establishing and maintaining good relationships with the surgeons for which they are critical. Ultimately, the company wasn't able to retain the best talents in this crucial staff pool and had to pay up just for retention.

- **Portfolio**: Until Q4 2021, the company lacked a cementless total knee offering, which is particularly popular with younger and more active patients and has seen a recent surge in growth. Lacking a complete offering range made it difficult for the company to approach certain accounts.

Apart from lacklustre top-line growth, the margin for the Orthopaedics division has reduced dramatically by more than 10ppt compared with its pre-COVID level. Some of this drop was due to one-time rebasing effects, such as the impact from China VBP. However, it was mostly due to input cost inflation, and operation deleverage resulting from slow growth.

Exhibit 26: Trading margin in Orthopaedics division has decreased by c. 1200 bps over 3Y
Orthopaedics divisional trading margin, 2019 - 2022



Source: Smith & Nephew earnings presentation

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Fixing Ortho is one of the main targets of the company restructuring

In July 2022, the company announced its new 12-point plan, as a means of transforming into a consistently higher-growth company. Five of the 12 initiatives focus on fixing the Orthopaedics division, with the aim of regaining momentum in all subdivisions, returning to market growth, and winning share with new technology.

Exhibit 27: Initiatives related to orthopaedics have progressed to plan during 2023
Goals and progress related to orthopaedics within the 12-point plan

Rewire commercial delivery (1 initiative)	Rebuild demand planning Improve asset utilisation Strengthen last-mile logistics	• >70% reduction in overdue orders • 95% progress towards US non-set LIFR target • c.25% increase in recon set turns
Win market share (3 initiatives)	Expansion of CORI Accelerate trauma through EVOS Launch of AETOS shoulder	•On track to place 300 units in 2023 •>400% increase in EVOS large deployments since Dec 22 •AETOS launched in June 2023
Streamline recon portfolio (1 initiative)	Sales focus on key brands Reduce number of implant systems in each category	• Simplified commercial process • General managers leading integrated Recon and Trauma BUs in the US

Source: Smith & Nephew

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Rewire commercial delivery:

In order to improve the commercial delivery, S&N had to work on its ability to fulfil hospital's orders, which has been impacted by challenging component availability since 2021-22. As of today, S&N is at 95% progress towards its target for LIFR (line item fill rate) for US non-set orders. This proves that the company is getting through its main obstacle which was the main root for customers switching to another provider these past few years. In addition, S&N has been working on instrument sets (e.g. tools that the surgeons need during the surgery, such as hammer ect) deployment and utilisation. Accounting for almost 50% of the capex, and delivered to hospitals for free, instrument set management is naturally vital to ensure customers can perform surgery when they need, and therefore avoid any market share loss (which tend to be sticky). In this journey, S&N has increased EVOS Large instrument set deployment by >400% since December 2022, with first results already visible for Trauma revenues growth in 3Q23. Hips should be the next to reach targeted instrument orders shipped percentage, followed by Knees. If we extrapolate the good results from Trauma, it may just be a question of time before Hips/Knees recover as well.

Exhibit 28: Instrument sets availability is key
Smith & Nephew surgery instrument set

Source: Company website
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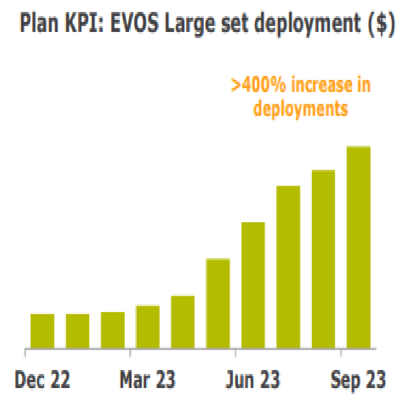
Exhibit 29: Set deployment fixed for Trauma
EVOS Large set deployment ($)



Source: Company presentation
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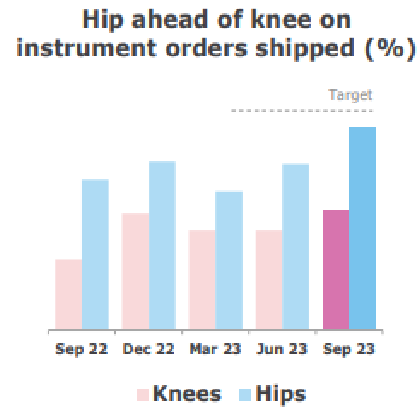
Exhibit 30: To be followed by Hips/Knees
Hips/Knees instrument orders shipped %



Source: Company presentation
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In addition to better supply chain, S&N has focused on improving its US commercial organisation to be able to regain momentum in the country. Following our discussions with the company, we believe the focus has been on 4 points to improve it: **1) incentive**: sales reps territories have been redesigned in terms of opportunity and organisation moved from retention to sales incentive system **2) performance management**: it was quite laxist and has been improved **3) process**: the organisation is more disciplined and capital allocation between different utilization level accounts is now prioritized **4) talent**: new US leadership team has brought new level of discipline and rigour to the organisation.

Win market share:

In terms of accelerating growth, we see three distinct opportunities (as explained later in this section). Having launched its second-generation surgical robot CORI in 2020, Smith & Nephew is pushing hard for both installation and utilisation. As it finally closed its portfolio gap in cementless total knee, the company can now grab shares in a growing market, which is also priced at a premium. Finally, the company launched its next-generation shoulder implant in 2023, which should expand its presence in the shoulder replacement market.

Growth opportunity #1: Robotic adoption with CORI

Summary: Adoption of robotic joint replacement is expected to continue to increase, reaching >50% by FY26E. S&N's robotic offering CORI has several advantages (price, portability, control, and indication). A +30% increase in the CORI installed base in FY24-26E could add +50bps to group revenues or >100bps to group EBIT pa, driven by consumables (e.g., implants) and services.

What is robotic joint replacement?

The development of robotic surgery allows doctors to perform complex procedures with more precision and control, and often with smaller incisions. The most widely used robotic surgical systems usually include a camera arm and mechanical arms with surgical instruments attached. The surgeon has ultimate control of the arms while seated at a computer console.

In joint replacement, one of the most difficult aspects is placing the artificial joint in the best possible alignment with the patient's specific anatomy. The surgeon also needs to remove the damaged cartilage and maybe reshape existing bones. The robotic arm gathers size and positioning information and guides the surgeon during the cut.

Exhibit 31: Surgeon performing partial knee replacement using MAKO
Canada's first robotic-assisted orthopaedic surgery

Source: Hospital News

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Exhibit 32: With robots, surgeons give up control for consistency
Summary of advantages and disadvantages of robotic surgery

Advantages	Disadvantages
More consistency between different surgeons	Can take time to set up
Less invasive and less damage to soft tissues	Requires extra space
More precise cut and joint placement	Surgeons have less control

Source: BofA Global Research

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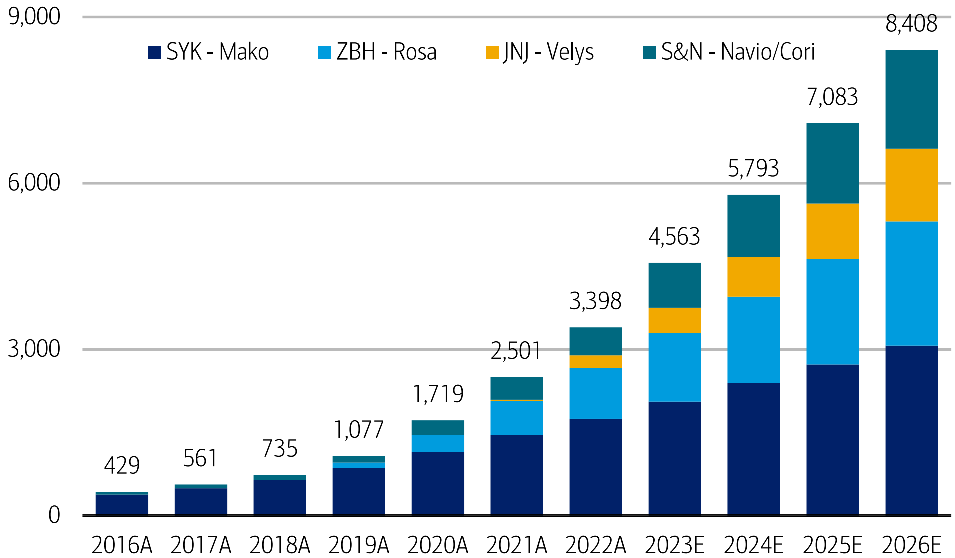
Stryker dominates the robotics market, but others are following the same path

The first-generation MAKO system was launched in 2006, with ability to assist partial knee replacement surgery. It expanded to total hip replacement surgery in 2010. Stryker acquired the company in September 2013, together with the robotic technology. Subsequently, MAKO's capability was extended to total knee replacement in 2017. As the first-mover in the market, MAKO is also dominant, having reached 1,000 installations in 2020, and performed more than 1mn procedures to date.

As adoption among surgeons picks up, other manufacturers are following suit and launching their own robotic systems. Below we summarise the key attributes of the major orthopaedic competitors' surgical robots. Currently, Smith & Nephew's CORI is the only one that can perform revision knee surgery (i.e., remove and replace an old implant). Apart from its relative low cost (30-50% discount to MAKO according to our channel checks), CORI is also a much lighter and more portable console and puts the fewest restrictions on surgeons while they make cuts.

Exhibit 33: Stryker's market share erodes as robot installed base expand with competitors' entry
Worldwide installed-base for robotic-assisted joint replacement systems



Source: BofA Global Research estimates

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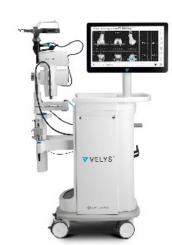
Exhibit 34: Launched in 2020, Smith & Nephew's CORI is a cheaper and lighter alternative
Surgical robot offerings of the big four

	S+N	stryker	ZIMMER BIOMET	DePuy Synthes
Surgical robot	CORI	MAKO	ROSA	VELYS
Weight	10kg	400kg	500kg	75kg
Advanced scanning required?	No	Yes- CT	Yes - X-ray/MRI	No
Format	Handheld precision milling	Robotic arm limited by haptic field	Cutting block attached to robotic arm	Robotic arm limited by haptic field
Indications	Total/partial/revision knee Total hip	Total/partial knee Total hip	Total/partial knee Total hip	Total knee
Launch date	NAVIO since 2016 CORI since 2020	2006	2019	2021
Installed base (CY22)	>500	c.1800	>900	<300
Image of the key robotic products				

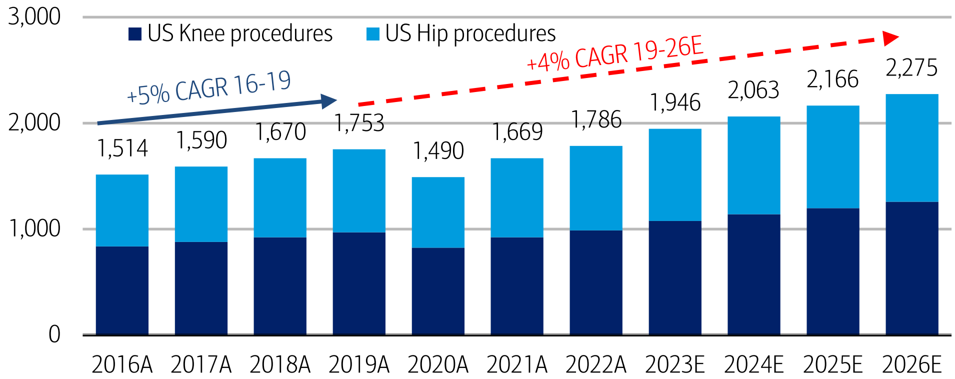
Source: Company Reports, BofA Global Research

Penetration for robotic-assisted surgery to increase rapidly

We believe c.1.8bn hip and knee replacement procedures took place in the US annually pre-COVID, growing at a mid-single-digit pace. There was a blip during the pandemic, as elective procedures were suspended in lockdowns, and seniors avoided hospital settings for fear of infection.

Since the reopening, hospitals have been working down their surgical backlog. However, the speed of this has been constrained by the tight healthcare labour market, which has started to alleviate but will likely take some time to return to normal. Therefore, for the medium term, we model a growth rate broadly similar to pre-COVID levels for overall procedure volumes.

Exhibit 35: US hip/knee procedures have still to recover from Covid/staff shortage
Number of hip/knee joint replacement procedures in the US, in thousand units



Source: Smith & Nephew, iData Research, BofA Global Research estimates

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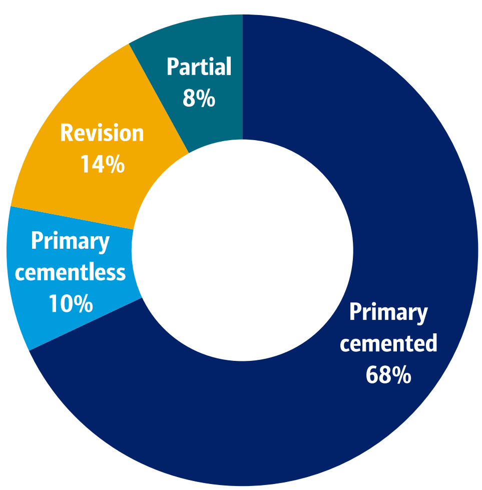
Up to 80% of all knee procedures performed in the US are primary replacements, i.e., patients replacing this joint for the first time. A revision knee replacement removes and replaces the original implant, because it has become wobbly, detached from the bone, or worn down over time. This is a longer, more complex procedure. Robotics are more frequently used in primary knee replacements.

We estimate penetration of robotics could rise from 22% in 2021 to >50% by 2026E, representing 6% growth pa on average. We don't think this is unrealistic: surgeons in the US have told us that the next generation is being trained on robotic platforms during their residency or fellowship. As younger surgeons progress through the ranks, they are more likely to appreciate the benefits of consistency and accuracy, as they will not have performed the huge volume of manual procedures of their predecessors.

Exhibit 36: Primary knee replacements account for c80% of cases
US knee joint replacement procedures breakdown (2021)



Source: Smith & Nephew

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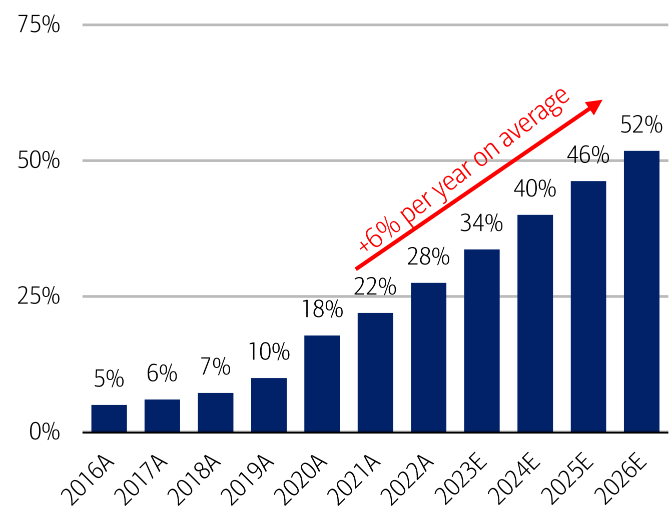
Exhibit 37: Robot penetration should accelerate over the coming years
% US joint robotic penetration



Source: BofA Global Research estimates

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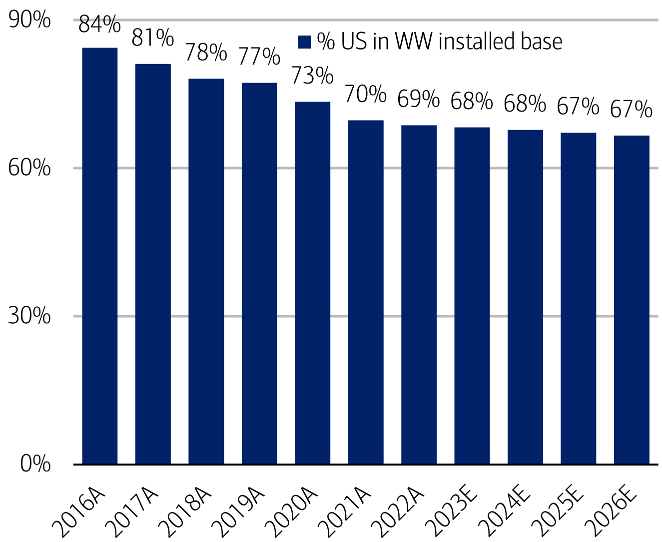
Perhaps unsurprisingly, the US leads other regions in the adoption of surgical robots. The country's high healthcare spending (highest in the world on a per-capita basis) plays a role, as well as its general leadership in technology. Also, all big orthopaedics peers other than Smith & Nephew are US companies.

Exhibit 38: US still represents the largest part of the robot opportunity
Percentage of robot installed-base located in the US



Source: BofA Global Research estimates

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CORI system placements could drive 50bps top line and >1% EBIT growth pa

While quantifying robotics upside is not easy, we model what could be the impact from more CORI robot placements for Smith & Nephew, especially given the robot offers some advantages versus peers:

- **Pricing:** CORI is much cheaper than SYK's Mako (we believe less than half the cost), which is more favourable in an environment where hospitals aim to cut costs. Furthermore, the procedure does not need a CT pre-operation, which provides a significant cost saving. We note that the J&J's Velys doesn't need any imaging pre-operation either.

- **Portability:** CORI is significantly smaller and lighter than competition offers, allowing it to be easily transported and more suitable for smaller ASC centres where it can be moved from one operating room to another.

- **Control:** CORI is essentially a handheld device with precision milling, and the surgeon still makes the cuts unrestricted during the operation. Whilst this means it is not a true "robot" per se, it gives the surgeon more control, and room to fine-tune the planned procedure. Due to individual differences between patients, we are aware that some surgeons prefer this. Recently, a personalised planning feature, powered by AI, has been added to CORI, attaching pre-op surgical plans and intra-op tools for decision-making, helping to customise planning to the surgeon's preference and patient's anatomy.

- **Indication:** CORI is also the only robotic system approved for revision knee replacement, presumably because CT scans are not possible for patients with knee implants and the level of flexibility allows it to assist surgeons in more complicated operations.

Below we calculate what could be the incremental revenue and EBIT impact, if CORI is rolled out as planned. We assume an ASP of $350k, being roughly half of the MAKO system today. Regardless of the sales model (volume-base agreement, financing or leasing), S&N recognizes CORI revenues upfront.

Management targets 300 units in 2023, and we assume this can grow by 5-10 units per year, thanks to higher overall penetration of robotics and additional features for CORI. Revenue also comes from annual service contracts of the installed base, which we assume starts one year post installation, and is priced at 5-10% of equipment cost. On top, we add software licence fee, for a combined 10% of cost.

While implants are system agnostic, naturally Smith & Nephew's own implants would work more smoothly with its robot. Throughout the years, we assume a moderate increase in average utilisation of CORI systems, as well as more market share gains for implants, based on the assumption that CORI accelerates outside of S&N's current surgeon base.

As shown below, incremental revenues from equipment, services and consumables (implant and robotic-specific such as reflecting pads) can potentially add 40-60bps to group sales and 90-130bps to group EBIT in FY24-26E.

Exhibit 39: More CORI system placements could add +90-130bps to group EBIT assuming higher utilization for CORI systems and S&N take share from competitors for implants when placing a robot in FY24-26E

Sensitivity analysis for CORI system placements and incremental implants, in USDmn

CORI Robotic System - Analysis	2021A	2022A	2023E	2024E	2025E	2026E
Capital Equipment - Revenues						
CORI - Sales ($mn)	**42**	**29**	**92**	**95**	**98**	**101**
ASP per system	$0.3m	$0.3m	$0.3m	$0.3m	$0.3m	$0.3m
Unit sold per year	140	97	305	315	325	335
Installed base growth %		24%	60%	39%	29%	23%
Annual service contract + software license ($mn)	**8.1**	**12.3**	**15.2**	**24.3**	**33.8**	**43.5**
% service as part of robot ASP	10%	10%	10%	10%	10%	10%
Robotic-specific consumables ($mn)	**1.3**	**1.1**	**4.6**	**5.3**	**6.1**	**6.3**
ASP per consumable	$125	$125	$125	$125	$125	$125
Incremental implants - Revenues						
Procedures / Year on each CORI	75	90	120	135	150	150
CORI systems sold in Year	140	97	305	315	325	335
Knees/Hips on those systems	10,500	8,685	36,600	42,525	48,750	50,250
% implants taken from competitors	20%	25%	30%	35%	40%	45%
Net new implants for S&N	2,100	2,171	10,980	14,884	19,500	22,613
ASP per implant	$4,500	$4,500	$4,500	$4,500	$4,500	$4,500
Incremental implant revenues from CORI	**9.5**	**9.8**	**49.4**	**67.0**	**87.8**	**101.8**
Total impact for S&N	**2021A**	**2022A**	**2023E**	**2024E**	**2025E**	**2026E**
Capital Equipment sales ($mn)	42.0	29.0	91.5	94.5	97.5	100.5
Annual service/software revenues ($mn)	8.1	12.3	15.2	24.3	33.8	43.5
Robotic-specific consumables	1.3	1.1	4.6	5.3	6.1	6.3
Incremental implant revenues ($mn)	9.5	9.8	49.4	67.0	87.8	101.8
Total revenues from CORI	**60.8**	**52.1**	**160.6**	**191.1**	**225.1**	**252.0**
Annual Sales growth ($mn)		-8.8	108.6	30.5	34.0	26.9
% Orthopaedics Sales growth impact		-0.4%	5.1%	1.4%	1.5%	1.1%
% Group Sales growth impact		**-0.2%**	**2.1%**	**0.6%**	**0.6%**	**0.4%**
% Group EBIT impact		**0.2%**	**2.5%**	**1.2%**	**1.3%**	**0.9%**

Source: BofA Global Research estimates

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Opportunity #2: mix shift towards cementless

Summary: S&N's portfolio gap with competitors was one of the reasons for its underperformance, but this was addressed in 2021 when it entered the cementless knee implant (>$400m market growing in double digits). Our analysis shows that every 1% market share gain in cementless could bring 80-90bps to group EBIT, driven by high profitability for implants and a 10% ASP premium in cementless vs cemented.

What's the difference between cemented and cementless?

A cemented and a cementless implant differ in the way they adhere to the patient's natural bone. A cemented implant uses fast-drying bone cement to help, typically an acrylic polymer called PMMA. A cementless implant has a rough or porous surface and press-fitting is used to anchor it into the bone, encouraging the bone to grow onto the implant. The surgeon needs to shape the natural bone to fit it around the implant, and some implants have screws or pegs to hold them in place until there is sufficient new bone growth.

Nowadays, there are also hybrid implants, which use both cemented and cementless components. For example, some knee implants use cement to affix the shin bone and knee cap components, but the thigh bone component is cementless. A hybrid hip implant can have a cemented stem with an uncemented cap.

Exhibit 40: Cementless implants have fewer complications, but need good quality bone
Cemented vs cementless implants comparison table

	Cemented	Cementless
Advantage	Allows implant to be fixed to slightly porous bone (e.g. due to osteoporosis)	Forms more permanent, biological bond
	Cement dries within 10 minutes - can be confident that the implant is in place	Eliminates worry about potential breakdown of cement
	Can add antibiotic material to cement - decreased risk of infection	Better preservation of natural bone
	Lower costs	Reduced surgery time
Disadvantage	Breakdown of cement may cause implant to come loose, requiring revision surgery	Requires healthy bones
	Cement debris can cause inflammation in surrounding soft tissue	Can take up to three months for new bone growth
	Cement can enter bloodstream and end up in lungs, which is life threatening	Patients may not put full weights on joint during initial 4-12 weeks

Source: Arthritis Health, BofA Global Research

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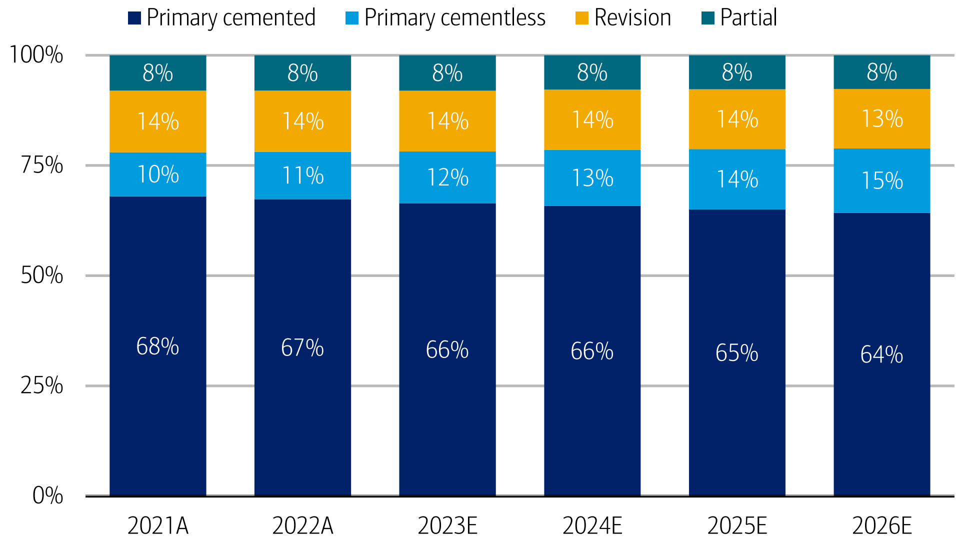
When it comes to hips, surgeons in both the US and Europe appear to prefer cementless implants, on the basis that they are more durable and reduce surgery time. It is estimated that as many as 95% of hip implants in the US are cementless, vs. just 14% for knee implants. The latter is becoming more popular, however, having grown by 17% between 2012 and 2021 in the US.

Cementless knee implants work particularly well with younger and high-activity patients. We forecast growth to continue in double digits in the US and we expect them to take share from cemented implants. Because of the coating, cementless implants are also priced at a 10-15% premium to the cemented versions.

Exhibit 41: Cementless implants expected to take share from cemented
US knee replacement procedures breakdown



Source: BofA Global Research estimates

BofA GLOBAL RESEARCH

Smith & Nephew has filled the gap with new cementless offering

Smith & Nephew launched its cementless total knee implant, LEGION CONCELOC, in October 2021, closing this previous gap. CONCELOC is a porous titanium that is manufactured through 3D printing and is a patented technology by the company. The asymmetrical keel of the implant is also designed to achieve immediate bone fixation.

We compare below the hip and knee implants, and trauma and extremities offerings, of the big orthopaedics competitors. While Smith & Nephew has some gaps in its trauma & extremities products, we think it has a competitive range in hip and knee implants. Its oxinium material provides the durability of metal and the wear properties of a ceramic, making it superior to either bearing material, in our view.

Additionally, Smith & Nephew acquired Engage Surgical in January 2022, which owned the only cementless partial knee system in the US. We believe the partial knee implant of Stryker (Restoris), Zimmer (Oxford, Persona) and DePuy (Sigma) are all cemented. Literature reviews show that cementless partial knee is strongly outperforming cemented partial knee in both functional outcomes and implant survivorship. Whilst the Engage product is not yet on the market, we believe first-mover advantage is valuable in this space.

Each 1ppt market share gain in cementless brings 80-90bps to group EBIT

Below we analyse the possible financial impact of the cementless knee implant on the group. We assume the share of cementless knee implants in the US grows from 11% in 2022 to 15% in 2026, and Smith & Nephew's share of the US market grows from 1% to 8% in the same period, which remains below our estimated 12% US market share for knee. A cemented knee implant costs $4,500 on average, and we assume a cementless implant has a 10% price premium.

By our calculations, cementless total knee can add 30-40bps to the group's top line in 2024E and 2025E. Assuming this drops through to EBIT at a 40% margin, the corresponding EBIT upside is 80bps to 90bps.

Exhibit 42: Having filled the gap in cementless total knee, S&N now has a competitive product offering in hip and knee implants
A comparison of the orthopaedics portfolio of key competitors

		S+N	stryker	ZIMMER BIOMET	DePuy Synthes
Trauma & Extremeties	Plates	✓	✓	✓	✓
	Screws	✓	✓	✓	✓
	Nails	✓	✓	✓	✓
	External fixation	✓	✓	✓	✓
	Staple	✓	✓	✓	×
	Soft tissue	×	✓	✓	×
	Biologics	×	✓	✓	✓
	Toe implant	✓	✓	×	✓
	Total ankle implant	✓	✓	✓	×
	Finger implant	✓	✓	×	×
	Wrist implant	✓	✓	×	×
	Elbow implant	×	✓	✓	×
	Shoulder implant	✓	✓	Includes patient-matched systems	Includes patient-matched systems
Hip implant	Cemented	✓	✓	✓	×
	Cementless	✓	✓	✓	✓
	Primary	✓	✓	✓	✓
	Revision	✓	✓	✓	✓
	Metal head	Metal Alloy - oxidised zirconium	✓	×	×
	Ceramic head		✓	Inclues patient-matched acetabular component	✓
Knee implant	Cemented	✓	✓	✓	✓
	Cementless	✓	✓	✓	✓
	Total	✓	✓	✓	✓
	Partial	✓	✓	✓	✓
	Primary	✓	✓	✓	✓
	Revision	✓	✓	✓	✓
	Sensor-enabled	×	✓	✓	×
Limb salvage	Hip and knee modular replacement system	×	✓	✓	✓

Source: Company Reports, BofA Global Research

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Exhibit 43: Market share gain in Cementless TKR could add +80-90bps to group EBIT assuming S&N increase its market share thanks to LEGION CONCELOC
Scenario analysis for US Cementless Total Knee Replacement (TKR), in USDmn

Cementless opportunity - Analysis	2021A	2022A	2023E	2024E	2025E	2026E
S&N - Knee Implants sales ($mn)	876	899	945	982	1,031	1,071
ASP per implant	$4,500	$4,500	$4,500	$4,500	$4,500	$4,500
Implied procedures volume (k units)	195	200	210	218	229	238
% US	60%	60%	60%	60%	60%	60%
Implied US procedures only (k units)	117	120	126	131	137	143
% market share for US Knee Implants	13%	12%	12%	11%	11%	11%
Incremental cementless revenues						
US TKR cementless procedures (k units)	92	106	127	146	166	185
% ASP premium	10%	10%	10%	10%	10%	10%
Implied TKR cementless market ($mn)	**457**	**525**	**631**	**725**	**819**	**918**
% growth		15%	20%	15%	13%	12%
S&N market share in US cementless TKR	0%	1%	2%	4%	6%	8%
Implied Cementless sales ($mn)	**0.5**	**5.3**	**12.6**	**29.0**	**49.2**	**73.4**
Annual Sales growth ($mn)		4.8	7.4	16.4	20.2	24.3
% Orthopaedics Sales growth impact		0.2%	0.3%	0.7%	0.9%	1.0%
% Group Sales growth impact		**0.1%**	**0.1%**	**0.3%**	**0.4%**	**0.4%**
% Group EBIT impact		**0.3%**	**0.4%**	**0.8%**	**0.9%**	**0.9%**

Source: BofA Global Research estimates

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Opportunity #3: new shoulder portfolio for Trauma

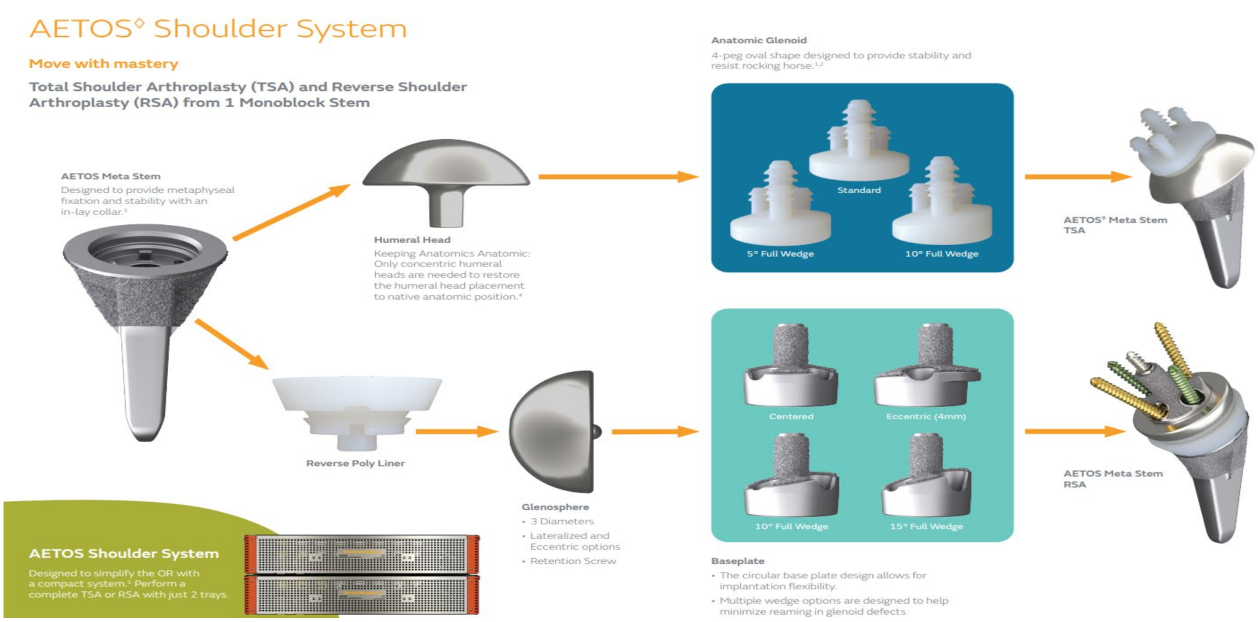
Summary: Thanks to Integra LifeSciences acquisition in 2021, S&N entered the $1.7bn shoulder implant market in 2023 with AETOS. Fuelled by strong, high single-digit market growth and a 1% market share gain every year, this opportunity could bring 60-70bps to group EBIT in the mid-term.

Integra LifeSciences acquisition provides entry into shoulder replacement
Smith & Nephew completed its acquisition of Integra LifeSciences in January 2021 for $240m. The deal has strengthened the company's trauma and extremities franchise significantly, by adding a complementary shoulder replacement and upper and lower extremities portfolio. In particular, the product pipeline includes a next generation shoulder replacement system, Titan, which was launched in 2022. Smith & Nephew obtained FDA approval in June 2023 for its newest shoulder implant, AETOS.

We think shoulder replacement is a $1.7bn market, expanding at a 9.5% CAGR. Similar to hip and knee replacement, underlying demand is driven by increased prevalence of osteoarthritis and rheumatoid arthritis. Additionally, the shoulder market is positively linked to increased trauma cases. It can be further segmented into primary, partial, revision, reverse, and shoulder resurfacing.

In reverse shoulder replacement surgery, an artificial ball is fixed into the shoulder socket, and rotates around a cup that is fixed to the upper end of the arm. Around 70% of all shoulder replacement procedures are reverse, and they are typically recommended to patients if rotator cuff muscles are severely damaged. DePuy is the market leader in shoulder replacement products (more than a 50% share), followed by Zimmer and Stryker. All manufacturers offer both anatomical and reverse shoulder implants. Smith & Nephew's AETOS implant has both designs sharing the same stem, which should simplify the instrument set.

Exhibit 44: AETOS Shoulder implant does TSA and RSA
AETOS shoulder system in a nutshell



Source: Company website

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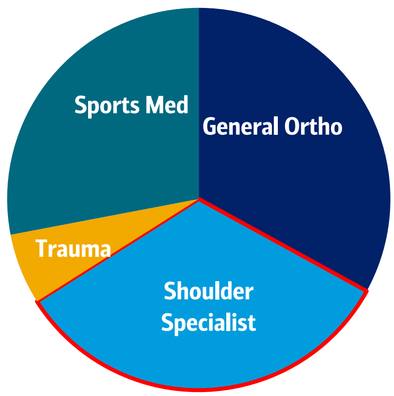
Smith & Nephew should be able to leverage its customers and channel

While shoulder replacement marks a new area for Smith & Nephew, we think the company should be able to leverage its Orthopaedic/Trauma and Sports customers and channel base to rapidly access the right specialists. Indeed, these surgeons account for around two-thirds of the target customer base for AETOS. The rest are shoulder specialists. Over time, Smith & Nephew plans to expand direct focus to shoulder specialists as well.

Exhibit 45: S&N already covers 2/3 of shoulder implant target customer base
US shoulder replacements by clinical specialty



Source: Smith & Nephew

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AETOS adds another string to CORI's bow – new version in development already

Smith & Nephew launched the short-stem shoulder (part of the implant that goes in the humerus bone), with anatomic and reverse options, for the US market in June 2023. The company is working on a stemless version of AETOS, which is aligned with the market trend of less invasive procedures. Advantages of stemless implants include less blood loss, operative time, bone removal and post-op pain, according to Mayo Clinic in Minnesota. In addition, shoulder arthroplasty application for CORI is under development, which could boost both CORI and AETOS sales. This would make CORI the first robot able to perform shoulder surgery, as hand-held milling is well suited for shoulder anatomy.

Entering the shoulder replacement market could add +60-70bps to group EBIT

Below we analyse the financial impact of the new shoulder implant. We assume the global shoulder replacement market grows at +9.5% (in line with S&N estimates), and Smith & Nephew's share grows by 1% each year from 2023E. If this then falls through to EBIT at a 30% margin, each 1% share gain adds 30-40bps to group sales, and 60-70bps to group EBIT.

Exhibit 46: Market share gain in shoulder could add +60-70bps to group EBIT assuming S&N increase its market share by 1% p.a. thanks to AETOS launch
Scenario analysis for shoulder replacement, in USDmn

AETOS shoulder opportunity - Analysis	2021A	2022A	2023E	2024E	2025E	2026E
Global shoulder replacement market ($mn)	1,331	1,491	1,700	1,862	2,038	2,232
% growth		12%	14%	10%	10%	10%
S&N market share in shoulder	0%	0%	0%	1%	2%	3%
Implied AETOS sales ($mn)	**0.0**	**0.0**	**1.7**	**18.6**	**40.8**	**67.0**
Annual Sales growth ($mn)		0.0	1.7	16.9	22.2	26.2
% Orthopaedics Sales growth impact		n.a	0.1%	0.8%	1.0%	1.1%
% Group Sales growth impact		**n.a**	**0.0%**	**0.3%**	**0.4%**	**0.4%**
% Group EBIT impact		**n.a**	**0.1%**	**0.6%**	**0.7%**	**0.7%**

Source: BofA Global Research estimates

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1mn potential new TKR patients thanks to GLP-1 by 2030

We believe GLP-1 has been the main reason for such underperformance in Orthopaedics last year. Even if osteoarthritis (OA) is the leading cause of knee replacement surgery, and its increased prevalence within the US population can be directly attributed to the rise in obesity, we believe that the market misses the positive outcome from using GLP-1 drugs on OA patients. We believe GLP-1 could open the door to 280k severely obese patients by 2030.

GLP-1 concerns for knee surgeries are overdone

Since the beginning of September 2023, both Stryker and Zimmer Biomet have underperformed due to GLP-1-related noise. A Novo Nordisk study is looking at the relationship between weight loss and knee pain, which we would expect will likely see a positive correlation. Investors with whom we've spoken are therefore becoming worried that increased usage of GLP-1 could potentially lower volumes of knee replacement surgeries. To us, the sell-off of ortho names appears overdone.

Expected NOVO's trial results in OA patients by 1Q24

The Novo Nordisk study in question completed in September 2023, and results are expected in 1Q 24 (delayed as it was supposed to be 4Q23). It recruited just over 400 participants, and the goal was to look at both change in body weight and change in WOMAC pain score. Participants needed to have a BMI no smaller than 30 (so includes both the moderately and severely obese population) and be clinically diagnosed with osteoarthritis.

The WOMAC pain score is a subjective assessment, where individuals perform five activities, and answer a questionnaire on the extent of pain they experience. This is on a scale of 0 (none) to 4 (extreme). The Novo study looks at a change in this score but doesn't define what would be a meaningful threshold for the change.

We think a decrease in the WOMAC pain score doesn't necessarily mean the patient would have improved enough not to need surgery. Previous studies have described a 30% reduction as moderately meaningful; however, as far as we are aware, there is no hard clinical threshold. Therefore, a positive correlation between weight loss and knee pain does not point to lost patient volume, in our view.

Additionally, the study is looking at a period of 68 weeks. Literature suggests that post knee replacement surgery, the pain reduction is most significant within the first six months. So even if the improvement in pain is similar between GLP-1 and surgery, weight loss is a gradual process while surgery is immediate. Patients might choose not to wait for that long.

Knees are 17% of S&N revenue mix

Below compare the knee exposure in revenue mix of the big four orthopaedics peers. For Smith & Nephew, knee makes up around one-sixth of group revenue, and this is at the higher end among peers. We point out, however, that it is far less exposed than Zimmer Biomet, and the shares have underperformed to a similar extent since August.

Exhibit 47: S&N is more exposed to knee than Stryker but less than Zimmer
Exposure to knees based on 2022 revenue

	S&N	Stryker	Zimmer	DePuy
2022 knee revenue ($m)	899	1,997	2,778	1,359
2022 total revenue ($m)	5,215	18,449	6,940	79,990
% Exposure	17%	11%	40%	2%

Source: Company reports

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Weight loss might decrease the need for surgery: extent is uncertain

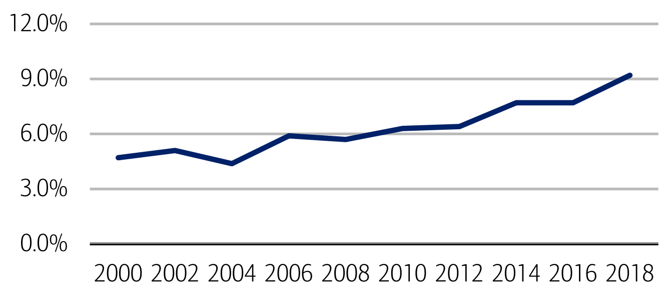
Osteoarthritis is the leading cause of knee replacement surgery, and its increased prevalence within the US population can be directly attributed to the rise in obesity. Body weight disproportionately affects one's knee: Being 10 pounds overweight puts an extra 15-50 pounds of pressure on your knees.

Moreover, excess fat releases inflammatory proteins, which speed up the destruction of cartilage. It is estimated that overweight adults have 4-5x the risk of osteoarthritis when compared to those with a normal weight. Being overweight or obese not only increases a person's likelihood of getting osteoarthritis, it also speeds up the disease progression and makes it more likely that the patient would need a knee replacement.

With the increased penetration of GLP-1 and its effectiveness on weight loss, we can see how it could eventually decrease the overall prevalence of osteoarthritis, the underlying cause for knee replacement. Given that losing weight should alleviate joint pain, perhaps for some population the improvement is so great that they no longer need the surgery.

We would argue the relationship is not that straightforward. There is a cost aspect, as using GLP-1 for more than two years is more expensive than an entire knee replacement surgery. Also, osteoarthritis is not reversible. Once an obese patient is diagnosed with this, losing weight can help the disease progress more slowly, but that might just mean a delay in timing of surgery, rather than lost volume altogether.

Exhibit 48: Severity obesity (>40 BMI) is on the rise
Severity obesity prevalence (>40 BMI) in US adults' population, %



Source: National Health and Nutrition Examination Survey 1999–2018.

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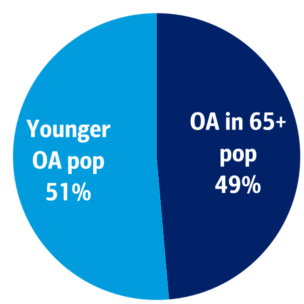
Exhibit 49: ~50% of 65+ population have Osteoarthritis (OA)
Share of OA among adults' population in the US, 2020



Source: OA Action Alliance, BofA Global Research estimates

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GLP-1 could open knee surgery to c.280k severe obese patients by 2030

Looking from a different angle, however, we think GLP-1 could actually present additional opportunities for knee replacement surgery. While there are no BMI requirements when it comes to surgery eligibility, patients who are severely obese (i.e. BMI of 40+) suffer from significantly more post-op complications, such as joint infection and wound healing failure.

As a result, many large institutions set a guideline of BMI of 40 or lower, before patients can proceed with surgery. Therefore, among osteoarthritis patients who are severely obese and currently restricted from surgery, GLP-1 has the potential of helping them become potential candidates.

Our market model below suggests this number could get to c.280k by 2030. Among the US population in 2020, 9.2% were severely obese, and we assume this increases steadily to 10.2% in 2030. 30% of obese patients suffer from osteoarthritis, and we assume this is higher at 50% in the severely obese population. We then assume that c.45% of these patients are symptomatic (based on 2020 data), and c.55% of them would choose knee replacement surgery over alternative treatments. This gives us an overall patient pool of 3-3.5mn each year, when surgery had previously not been a viable option before GLP-1.

If GLP-1 penetration reaches 8% in 2030 following reimbursement in the severely obese population, and all of them achieve a weight loss that makes them eligible for surgery, this could increase volume by c.280k that year. If S&N takes 11% of this share (consistent with its current market position), this could add 20-50bps per year to top-line growth, and 30-90bps to EBIT.

Exhibit 50: GLP-1 could help ~280k severe obese patients to have knee joint replacement surgery by 2030, adding 30 to 90bps to group EBIT for S&N
BofA GLP-1 market model and its impact on Total Knee Replacement (TKR) in the US

GLP-1 model for OA (USA only)	2020A	2021A	2022A	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Target Population Analysis											
US Adults Population (mn)	258.5	259.7	261.0	262.4	263.7	265.0	266.3	267.6	269.0	270.3	271.7
% growth		0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%
Population with Osteoarthritis (mn)	35.0	35.4	36.1	36.8	37.6	38.3	39.1	40.0	40.9	41.7	42.6
% total adults	13.5%	13.6%	13.8%	14.0%	14.2%	14.4%	14.7%	14.9%	15.2%	15.4%	15.7%
o/w symptomatic knee OA	16.0	16.2	16.5	16.8	17.2	17.5	17.9	18.3	18.7	19.1	19.5
% total OA population	45.7%	45.7%	45.7%	45.7%	45.7%	45.7%	45.7%	45.7%	45.7%	45.7%	45.7%
Severe obese (>40 BMI) population (mn)	23.8	24.2	24.5	24.9	25.3	25.7	26.1	26.5	26.9	27.3	27.7
% total adults	9.2%	9.3%	9.4%	9.5%	9.6%	9.7%	9.8%	9.9%	10.0%	10.1%	10.2%
GLP-1: positive impact on severe obese patients											
Patients (>40 BMI with sympt. Knee OA, eligible TKR), (mn)	**3.0**	**3.0**	**3.1**	**3.1**	**3.2**	**3.2**	**3.3**	**3.3**	**3.4**	**3.4**	**3.5**
% severe obese adults with OA	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%
% symptomatic knee OA who receive TKR over lifetime	55.0%	55.0%	55.0%	55.0%	55.0%	55.0%	55.0%	55.0%	55.0%	55.0%	55.0%
% GLP-1 penetration for severe obese patients	0.0%	0.0%	0.1%	0.4%	1.0%	2.0%	4.0%	5.0%	6.0%	7.0%	8.0%
Implied potential new patients for TKR (thousands)	0.0	0.0	3.1	12.5	31.8	64.6	131.2	166.5	202.9	240.3	278.7
Incremental new patients for TKR (thousands)	**0.0**	**0.0**	**3.1**	**9.4**	**19.3**	**32.8**	**66.6**	**35.3**	**36.3**	**37.4**	**38.4**
S&N - Company potential impact											
S&N market share in TKR	11.0%	11.0%	10.0%	10.0%	10.5%	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%
Potential new patients (thousands)	0.0	0.0	0.3	0.9	2.0	3.6	7.3	3.9	4.0	4.1	4.2
ASP per implant ($)	$4,500	$4,500	$4,500	$4,500	$4,500	$4,500	$4,500	$4,500	$4,500	$4,500	$4,500
Implied incremental GLP-1 revenues ($mn)	**0.0**	**0.0**	**1.4**	**4.3**	**9.1**	**16.2**	**33.0**	**17.5**	**18.0**	**18.5**	**19.0**
% Group sales growth impact			**0.0%**	**0.1%**	**0.2%**	**0.3%**	**0.5%**	**0.3%**	**0.3%**	**0.3%**	**0.3%**
% Group EBIT impact			**0.1%**	**0.2%**	**0.3%**	**0.5%**	**0.9%**	**0.5%**	**0.4%**	**0.4%**	**0.4%**

Source: CDC, Arthritis Foundation, BofA Global Research estimates

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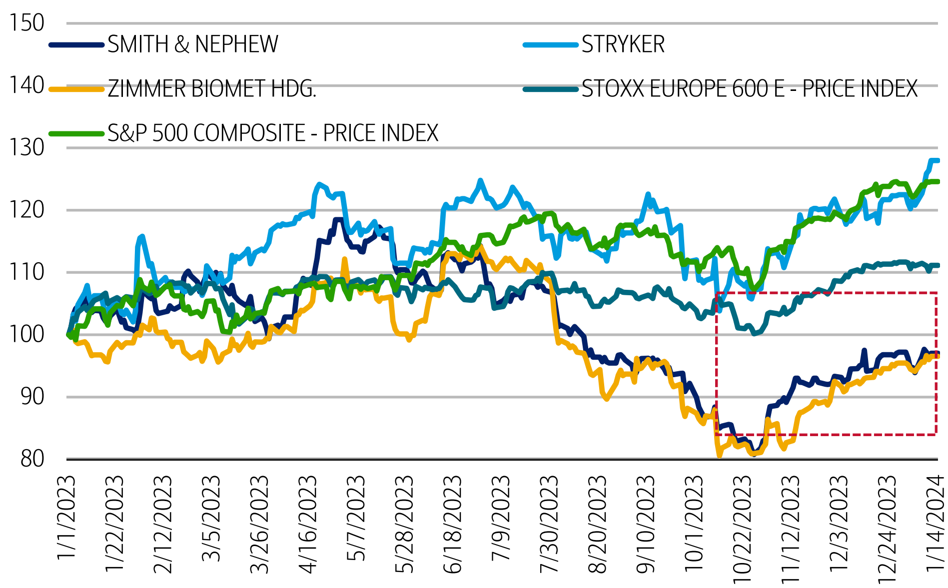
Street assumes no value for Orthopaedics

Summary: Smith & Nephew shares trade at a low valuation level compared to the rest of EU MedTech (c13x vs 19x on FY24 EV/EBIT). As investor pushback is focused on Orthopaedics, we assess what the Street prices for this business with a SOTP approach. Using the average multiples for Sports/Wound listed peers, Orthopaedics would have almost no EV. Even if we assumed Orthopaedics to be worth at a discount to listed peers, the current company market value would imply an underserved discount to peers for leading Sports/Wound franchises. Unfair, in our view.

All Orthopaedics stocks performed poorly in 2023

Ortho stocks had a rather lacklustre year in 2023. Optimism started to fade when hospital volume growth decelerated in Q2 post pent-up demand in Q1 (albeit still above the average growth level pre-COVID). Since the summer, the subsector has also been hit by the GLP-1 narrative. Investors became worried about the negative implication on knee replacement volumes, after a Novo Nordisk study (supposedly due Q4 23 results, delayed to Q1 2024) included how semaglutide (medicine to treat Type 2 Diabetes) would affect knee pain. As shown below, both Smith & Nephew and Zimmer Biomet have meaningfully underperformed the broader market since August.

Exhibit 51: S&N and Zimmer have underperformed the market since August this year
Share price performance YTD of ortho stocks vs the broader market



Source: Eikon

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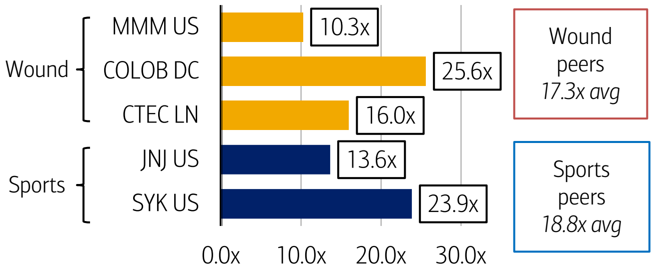
S&N has lost market shares in Ortho, but is trying hard to win it back

Management is aware of the relative underperformance of the orthopaedics franchise. Five of the 12 initiatives in the 12-point plan are aimed at improving the performance of this division and are 50-75% completed. We think the target of being a good fourth peer is not unrealistic, as execution improves and the company regains some lost market share in the hip and knee market.

Street assumes almost no value for Ortho, which doesn't seem fair to us

Below we conduct a reverse SOTP to see how much the orthopaedics business is worth at Smith & Nephew's current valuation. Stryker and DePuy (J&J division) are the natural peers for Sports Medicine. For Wound Care, we included 3M in the US to balance the valuation premium from COLOB (which doesn't come from COLOB's wound business given its relatively small size). We think this is relatively conservative, as valuation multiples for a conglomerate like 3M and J&J are normally lower than what would have been assigned to a standalone, high-growth and profitable division.

Exhibit 52: Selection of listed peers for our reverse SOTP
Mapping of peers for Advanced Wound Care and Sports Medicine & ENT



Source: Bloomberg

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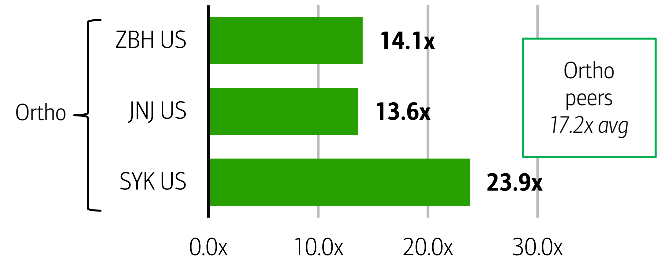
Exhibit 53: Relevant listed peers for Ortho
Mapping of peers for Orthopaedics



Source: Bloomberg

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Taking the peer average, if we assign a FY24E EV/EBITA multiple of 18.8x and 17.3x to Smith & Nephew's Sports and Wound businesses, its current market value implies an EV of only $800m for its Orthopaedics business (2x EBITA). Despite the recent challenges, Ortho is still a profitable division and a such low valuation is unwarranted, in our view.

Exhibit 54: Our reverse SOTP shows that Street gives almost no value to Orthopaedics business
Reverse SOTP for Smith & Nephew, using above peers, current equity value and BBG estimates, USDmn

Reverse SOTP Work	Group	Sports	Wound	Other	Ortho
BBG FY24 Sales ($mn)	5,807	1,804	1,682	1	2,319
BBG FY24 EBITA ($mn)	**1,049**	**540**	**510**	**(432)**	**431**
Margin (%)	*18.1%*	*30%*	*30%*	*N/A*	*19%*
EV/EBITA	13.3x	18.8x	17.3x	13.5x	1.9x
Enterprise Value ($mn)	**13,915**	**10,122**	**8,819**	**(5,835)**	**810**
Net Debt 24E	2,148				
Equity Value ($mn)	**11,767**				

Source: Bloomberg, BofA Global Research estimates

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Considering Ortho at discount to peers implies undeserved value for the rest

Looking at this through an alternative lens, if we assume the Orthopaedics business should trade at a discount to peers (which seems fair), the current market value implies an undeserved discount to peers in Smith & Nephew's Sports and Wound businesses.

We conclude that even if some investors believe the Orthopaedics business is worth close to zero (which we disagree with), there is further upside to current multiples. Either way, we think Smith & Nephew as a whole is undervalued by the market.

Exhibit 55: At current market capitalization, any kind of Ortho discount magnitude to peers imply an undeserved valuation discount for leading Sports/Wound businesses
Sensitivity table reflecting Sports/Wound implied valuation discount to listed peers, based on Orthopaedics valuation discount to peers and multiple applied to central costs

		Ortho valuation discount to peers				
		-50%	**-40%**	**-30%**	**-20%**	**-10%**
Other EV/EBITA (x)	**17.0x**	-7%	-11%	-15%	-19%	-23%
	16.0x	-9%	-13%	-17%	-21%	-25%
	15.0x	-12%	-16%	-20%	-23%	-27%
	14.0x	-14%	-18%	-22%	-26%	-30%
	13.0x	-16%	-20%	-24%	-28%	-32%

Source: Bloomberg, BofA Global Research estimates

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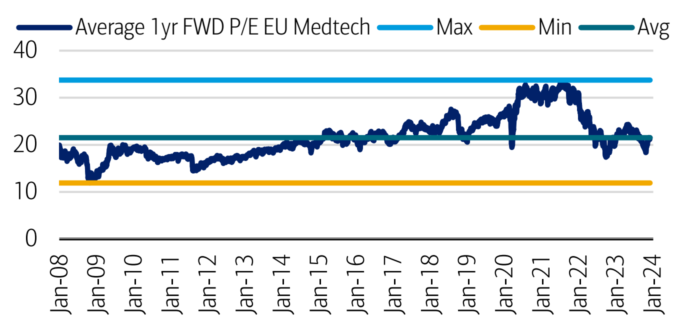
EU MedTech: Year Ahead 2024

We are constructive on EU MedTech into 2024 as the sector's well-known fundamental growth drivers appear intact (ageing population, access to health, etc.), despite the GLP-1 overhang. We expect 2024 to be a more 'normal' year after COVID and supply chain challenges, while payor health looks strong. Sector margins should also improve to 19% (BofAe +1.4ppt above cons.), despite ongoing labour cost inflation and FX headwinds, which should be offset by operating leverage and cost control. Debt refinancing may impact sector EPS by 1-2% as we expect 10% of outstanding debt to be refinanced at a higher rate in 2024. Overall, we remain positive on the structurally growing and quality names in our coverage (Amplifon, Straumann and Coloplast), but also see potential upside for value names with turnaround potential (Fresenius SE and S&N).

Exhibit 56: The sector trades in line with its 15-year average, on c22x
EU Medtech (BofA coverage) 1-year forward P/E



Source: Bloomberg

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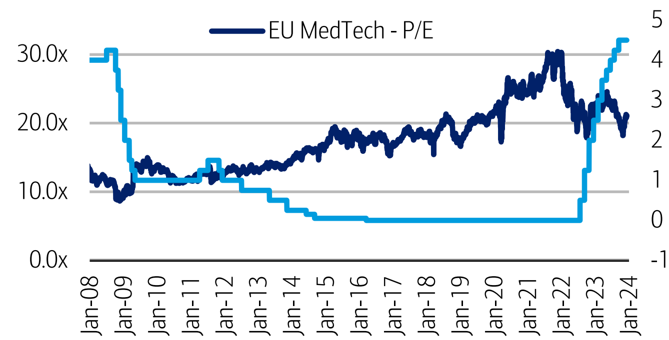
Exhibit 57: EU MedTech Valuation expands with low/declining rates
EU Medtech (BofA coverage) 1-yr fwd P/E vs Euro short-term interest rate



Source: Bloomberg

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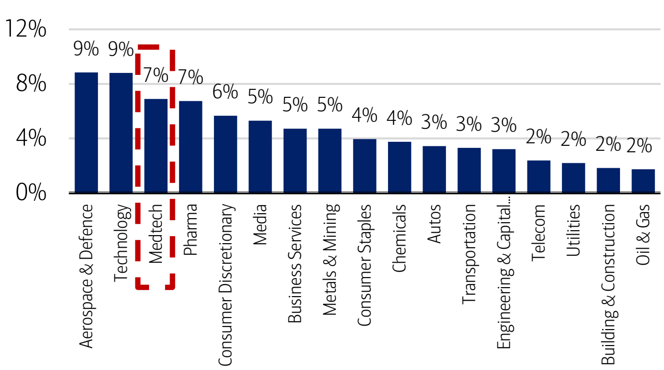
Valuation update: 2024 offers a particularly attractive entry point

EU MedTech trades on c22x 1-yr fwd P/E – still 30% below 2021, and c14% below its last 5-year average. Valuation is underpinned by the sector's #3 position in Europe for sales growth and margin, and #2 for EPS growth over 23-25E. We don't expect further pressure from GLP-1 on valuation, and multiple re-rating in anticipation of lower interest rates has already started. We see further re-rating potential if the sector's excess yield (currently c2%) returns towards the average of 1% pre-Quantitative Easing policy (e.g., pre-2009). We feel now is a good time to return to MedTech as we expect a sector re-rating (c7% using our POs) and earnings upgrades in 2024, supported by quality/growth names and consistent execution. We sit on average +2-3% above EBIT/EPS consensus estimates across our coverage for FY24E.

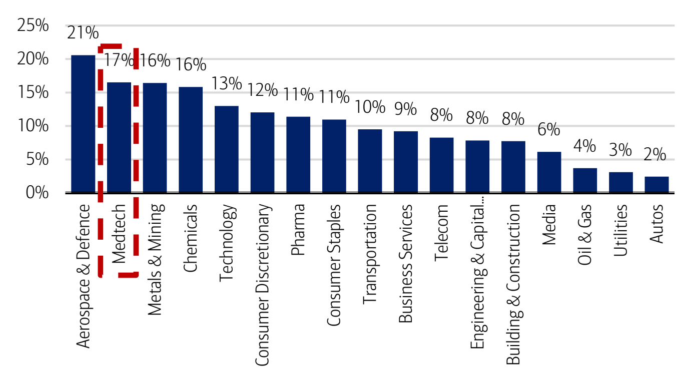
Exhibit 58: MedTech offers the 3rs fastest sales growth
Revenues CAGR 2023-2025E of all sectors



Source: BofA Global Research estimates, company data

BofA GLOBAL RESEARCH

Exhibit 59: MedTech has the 2nd best EPS growth over 2023-25E
EPS CAGR 2023-2025E of all sectors



Source: BofA Global Research estimates, company data

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Financials

Exhibit 60: Earnings changes

We are 1% and 3% above our previous estimates for FY23E and FY24E EPS

SN Changes - 2023	Old	New	Change	SN Changes - 2024	Old	New	Change
Knee Implants	945	947	0.2%	Knee Implants	982	996	1.4%
Hip Implants	604	605	0.2%	Hip Implants	616	624	1.4%
Other Reconstruction	111	111	0.2%	Other Reconstruction	123	123	0.4%
Trauma	565	566	0.2%	Trauma	585	593	1.4%
Sports Medicine	938	940	0.2%	Sports Medicine	1,004	1,017	1.3%
Arthroscopic Tech.	578	579	0.2%	Arthroscopic Tech.	584	592	1.4%
ENT	198	198	0.2%	ENT	203	206	1.4%
Wound Care	723	725	0.2%	Wound Care	749	759	1.4%
Bioactives	542	543	0.2%	Bioactives	569	577	1.4%
Wound Devices	322	323	0.2%	Wound Devices	345	349	1.3%
Group Sales	**5,526**	**5,537**	**0.2%**	**Group Sales**	**5,759**	**5,837**	**1.4%**
Cost of Goods Sold	(1,626)	(1,628)	0.2%	Cost of Goods Sold	(1,669)	(1,690)	1.3%
Gross Profit	**3,901**	**3,909**	**0.2%**	**Gross Profit**	**4,090**	**4,147**	**1.4%**
Marketing / Selling	(2,203)	(2,207)	0.2%	Marketing / Selling	(2,290)	(2,322)	1.4%
Admin Costs	(373)	(373)	-	Admin Costs	(384)	(384)	-
R&D	(355)	(355)	-	R&D	(373)	(373)	-
Trading Profit	**970**	**973**	**0.4%**	**Trading Profit**	**1,043**	**1,068**	**2.5%**
Interest Income	14	14	-	Interest Income	10	10	(2.0%)
Interest Expense	(89)	(89)	-	Interest Expense	(89)	(89)	-
Other Finance Costs	(1)	(1)	-	Other Finance Costs	(1)	(1)	-
Associates	10	10	-	Associates	15	15	-
EBT	**904**	**907**	**0.4%**	**EBT**	**978**	**1,003**	**2.6%**
Underlying Tax	(154)	(154)	0.4%	Underlying Tax	(186)	(191)	2.6%
Net Income	**750**	**753**	**0.4%**	**Net Income**	**792**	**812**	**2.6%**
Post Tax Exceptionals	(123)	(123)	0.1%	Post Tax Exceptionals	(122)	(123)	0.8%
Net Income (Reported)	**627**	**630**	**0.5%**	**Net Income (Reported)**	**670**	**690**	**2.9%**
Basic EPSA (Pre-Exceptionals)	0.86	0.86	0.4%	Basic EPSA (Pre-Exceptionals)	0.91	0.93	2.6%
Basic EPS (Pre-Exceptionals)	0.75	0.75	0.5%	Basic EPS (Pre-Exceptionals)	0.79	0.82	2.9%
Basic EPS (Post-Exceptionals)	0.72	0.72	0.5%	Basic EPS (Post-Exceptionals)	0.77	0.79	2.9%
GROWTH	**Old**	**New**	**Change**	**GROWTH**	**Old**	**New**	**Change**
Sales	6.0%	6.2%	0.2%	Sales	4.2%	5.4%	1.2%
EBIT	7.5%	7.9%	0.4%	EBIT	7.5%	9.8%	2.2%
EBT	5.9%	6.4%	0.4%	EBT	8.2%	10.5%	2.4%
Net Income	5.0%	5.5%	0.4%	Net Income	5.6%	7.9%	2.3%
Diluted EPS	5.0%	5.5%	0.4%	Diluted EPS	5.6%	7.9%	2.3%
MARGINS	**Old**	**New**	**Change**	**MARGINS**	**Old**	**New**	**Change**
Gross Margin	70.6%	70.6%	0.0%	Gross Margin	71.0%	71.0%	0.02%
Marketing / Selling	-39.9%	-39.9%	0.0%	Marketing / Selling	-39.8%	-39.8%	(0.0%)
Admin Costs	-6.7%	-6.7%	0.0%	Admin Costs	-6.7%	-6.6%	0.1%
R&D	-6.4%	-6.4%	0.0%	R&D	-6.5%	-6.4%	0.1%
EBITDA Margin	23.9%	23.9%	0.0%	EBITDA Margin	24.7%	24.8%	0.1%
EBITA Margin	17.5%	17.6%	0.0%	EBITA Margin	18.1%	18.3%	0.2%
EBIT Margin	14.9%	14.9%	0.0%	EBIT Margin	15.5%	15.7%	0.2%
EBT Margin	16.4%	16.4%	0.0%	EBT Margin	17.0%	17.2%	0.2%
Effective Tax Rate	17.0%	17.0%	-	Effective Tax Rate	19.0%	19.0%	-
Net Margin	13.6%	13.6%	0.0%	Net Margin	13.7%	13.9%	0.2%
RETURNS	**Old**	**New**	**Change**	**RETURNS**	**Old**	**New**	**Change**
Asset Turn	0.54x	0.54x	0.0x	Asset Turn	0.54x	0.55x	0.0x
EBIT Margin	14.9%	14.9%	0.0%	EBIT Margin	15.5%	15.7%	0.2%
Tax Rate	17.0%	17.0%	-	Tax Rate	19.0%	19.0%	-
ROIC Including Goodwill	0.09x	0.09x	0.0%	ROIC Including Goodwill	0.10x	0.10x	0.1%
ROIC Excluding Goodwill	0.14x	0.14x	0.0%	ROIC Excluding Goodwill	0.16x	0.16x	0.1%
Return on Equity	0.14x	0.14x	0.1%	Return on Equity	0.13x	0.14x	0.3%

Source: BofA Global Research estimates

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Exhibit 61: S&N Income Statement
FY16A-FY27E, in $mn

S&N Income Statement ($mn)	FY16A	FY17A	FY18A	FY19A	FY20A	FY21A	FY22A	FY23E	FY24E	FY25E	FY26E	FY27E
Knee Implants	932	984	1,017	1,042	822	876	899	947	996	1,045	1,086	1,129
Hip Implants	597	599	613	613	567	612	584	605	624	643	662	681
Other Reconstruction	214	45	62	79	68	92	87	111	123	135	149	158
Trauma	475	479	476	488	460	576	543	566	593	616	638	654
Sports Medicine	587	650	717	794	710	839	870	940	1,017	1,094	1,155	1,218
Arthroscopic Tech.	631	615	600	591	517	590	567	579	592	604	616	629
ENT	-	137	144	151	106	131	153	198	206	214	219	223
Wound Care	719	720	740	714	647	731	712	725	759	793	829	866
Bioactives	342	342	320	424	431	496	520	543	577	612	648	681
Wound Devices	172	194	215	242	232	269	280	323	349	377	407	436
Group Sales	**4,669**	**4,765**	**4,904**	**5,138**	**4,560**	**5,212**	**5,215**	**5,537**	**5,837**	**6,134**	**6,409**	**6,675**
Cost of Goods Sold	(1,272)	(1,248)	(1,298)	(1,338)	(1,396)	(1,543)	(1,540)	(1,628)	(1,690)	(1,659)	(1,720)	(1,780)
Gross Profit	**3,397**	**3,517**	**3,606**	**3,800**	**3,164**	**3,669**	**3,675**	**3,909**	**4,147**	**4,475**	**4,689**	**4,895**
Marketing / Selling	(1,712)	(1,781)	(1,820)	(1,911)	(1,773)	(2,013)	(2,066)	(2,207)	(2,322)	(2,446)	(2,561)	(2,674)
Admin Costs	(435)	(465)	(441)	(428)	(401)	(364)	(362)	(373)	(384)	(396)	(403)	(412)
R&D	(230)	(223)	(246)	(292)	(307)	(356)	(345)	(355)	(373)	(384)	(396)	(408)
Trading Profit	**1,020**	**1,048**	**1,099**	**1,169**	**683**	**936**	**902**	**973**	**1,068**	**1,250**	**1,328**	**1,402**
Interest Income	6	6	8	10	6	6	14	14	10	19	26	30
Interest Expense	(52)	(57)	(59)	(65)	(62)	(80)	(80)	(89)	(89)	(89)	(89)	(89)
Other Finance Costs	(11)	(10)	(11)	(11)	(5)	(14)	(1)	(1)	(1)	(1)	(1)	(1)
Associates	2	6	(11)	1	14	9	18	10	15	15	15	15
EBT	**965**	**993**	**1,026**	**1,104**	**636**	**857**	**853**	**907**	**1,003**	**1,193**	**1,279**	**1,357**
Underlying Tax	(230)	(170)	(166)	(211)	(72)	(147)	(139)	(154)	(191)	(227)	(243)	(258)
Net Income	**735**	**823**	**860**	**893**	**564**	**710**	**714**	**753**	**812**	**967**	**1,036**	**1,099**
Post Tax Exceptionals	49	(56)	(197)	(293)	(116)	(186)	(491)	(123)	(123)	(126)	(129)	(88)
Net Income (Reported)	**784**	**767**	**663**	**600**	**448**	**524**	**223**	**630**	**690**	**841**	**907**	**1,011**
Basic EPSA (Pre-Exceptionals)	0.83	0.94	0.99	1.02	0.65	0.81	0.82	0.86	0.93	1.13	1.24	1.35
Basic EPS (Pre-Exceptionals)	0.69	0.84	0.90	0.91	0.52	0.68	0.66	0.75	0.82	1.01	1.12	1.26
Basic EPS (Post-Exceptionals)	0.88	0.88	0.76	0.69	0.51	0.60	0.26	0.72	0.79	0.99	1.09	1.24
GROWTH	**FY16A**	**FY17A**	**FY18A**	**FY19A**	**FY20A**	**FY21A**	**FY22A**	**FY23E**	**FY24E**	**FY25E**	**FY26E**	**FY27E**
Sales	0.8%	2.1%	2.9%	4.8%	-11.2%	14.3%	0.1%	6.2%	5.4%	5.1%	4.5%	4.2%
EBIT	-7.2%	2.7%	4.9%	6.4%	-41.6%	37.0%	-3.6%	7.9%	9.8%	17.0%	6.3%	5.5%
EBT	-7.2%	2.9%	3.3%	7.6%	-42.4%	34.7%	-0.5%	6.4%	10.5%	19.0%	7.2%	6.1%
Net Income	-3.4%	12.0%	4.5%	3.8%	-36.8%	25.9%	0.6%	5.5%	7.9%	19.0%	7.2%	6.1%
Diluted EPS	-2.8%	14.3%	4.4%	3.7%	-36.7%	25.5%	1.1%	5.5%	7.9%	21.6%	9.6%	8.5%
MARGINS	**FY16A**	**FY17A**	**FY18A**	**FY19A**	**FY20A**	**FY21A**	**FY22A**	**FY23E**	**FY24E**	**FY25E**	**FY26E**	**FY27E**
Gross Margin	72.8%	73.8%	73.5%	74.0%	69.4%	70.4%	70.5%	70.6%	71.0%	72.9%	73.2%	73.3%
Marketing / Selling	-36.7%	-37.4%	-37.1%	-37.2%	-38.9%	-38.6%	-39.6%	-39.9%	-39.8%	-39.9%	-40.0%	-40.1%
Admin Costs	-9.3%	-9.8%	-9.0%	-8.3%	-8.8%	-7.0%	-6.9%	-6.7%	-6.6%	-6.4%	-6.3%	-6.2%
R&D	-4.9%	-4.7%	-5.0%	-5.7%	-6.7%	-6.8%	-6.6%	-6.4%	-6.4%	-6.3%	-6.2%	-6.1%
EBITDA Margin	27.6%	28.4%	28.9%	29.6%	24.3%	25.5%	23.9%	23.9%	24.8%	27.0%	27.5%	28.0%
EBITA Margin	21.8%	22.0%	22.4%	22.8%	15.0%	18.0%	17.3%	17.6%	18.3%	20.4%	20.7%	21.0%
EBIT Margin	18.0%	19.1%	20.1%	20.0%	11.2%	14.7%	13.4%	14.9%	15.7%	17.8%	18.2%	19.4%
EBT Margin	20.7%	20.8%	20.9%	21.5%	13.9%	16.4%	16.4%	16.4%	17.2%	19.5%	20.0%	20.3%
Effective Tax Rate	23.8%	17.1%	16.2%	19.1%	11.3%	17.2%	16.3%	17.0%	19.0%	19.0%	19.0%	19.0%
Net Margin	15.7%	17.3%	17.5%	17.4%	12.4%	13.6%	13.7%	13.6%	13.9%	15.8%	16.2%	16.5%

Source: Company Reports, BofA Global Research estimates

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Exhibit 62: S&N Balance Sheet
FY16A-FY27E, in $mn

S&N Balance Sheet ($mn)	FY16A	FY17A	FY18A	FY19A	FY20A	FY21A	FY22A	FY23E	FY24E	FY25E	FY26E	FY27E
Cash	100	169	365	277	1,762	1,290	350	782	1,416	1,593	1,883	2,217
Inventories	1,244	1,304	1,395	1,614	1,691	1,844	2,205	2,381	2,218	2,337	2,448	2,557
Receivables	1,185	1,258	1,317	1,328	1,211	1,290	1,301	1,301	1,372	1,442	1,506	1,569
Current Assets	**2,529**	**2,731**	**3,077**	**3,219**	**4,664**	**4,424**	**3,856**	**4,464**	**5,006**	**5,371**	**5,838**	**6,342**
PP&E	982	1,049	1,062	1,323	1,449	1,513	1,455	1,454	1,487	1,503	1,507	1,495
Goodwill	2,188	2,371	2,337	2,789	2,928	2,989	3,031	3,009	3,016	3,016	3,016	3,016
Intangibles	1,411	1,371	1,210	1,567	1,486	1,398	1,236	1,126	1,052	970	888	867
Investments	25	21	34	7	9	10	12	17	22	27	32	37
Associates	112	118	105	103	108	188	46	46	46	46	46	46
Retirement & Other	-	78	109	141	166	197	153	153	153	153	153	153
Deferrred Tax Assets	97	127	126	150	202	201	177	177	177	177	177	177
Non-Current Assets	**4,815**	**5,135**	**4,982**	**6,080**	**6,348**	**6,496**	**6,110**	**5,983**	**5,953**	**5,892**	**5,819**	**5,791**
Debt	86	27	164	72	337	491	160	160	160	160	160	160
Payables	884	957	957	1,046	1,022	1,096	1,098	1,161	1,205	1,183	1,227	1,269
Provisions	147	129	121	203	123	322	243	243	243	243	243	243
Tax Payables	231	233	223	243	206	222	214	214	214	214	214	214
Current Liabilities	**1,348**	**1,346**	**1,465**	**1,564**	**1,688**	**2,131**	**1,715**	**1,778**	**1,822**	**1,800**	**1,844**	**1,886**
Debt	1,564	1,423	1,301	1,975	3,353	2,848	2,712	2,712	2,712	2,712	2,712	2,712
Pension	164	131	114	136	163	127	70	60	50	40	30	20
Other Payables	82	128	53	102	94	67	90	90	90	90	90	90
Provisions	134	97	153	214	294	35	84	84	84	84	84	84
Deferred Tax	94	97	99	167	141	144	36	36	36	36	36	36
Non-Current Liabilities	**2,038**	**1,876**	**1,720**	**2,594**	**4,045**	**3,221**	**2,992**	**2,982**	**2,972**	**2,962**	**2,952**	**2,942**
Share Capital	180	178	177	177	177	177	175	175	175	175	175	175
Share Premium	600	605	608	610	612	614	615	615	615	615	615	615
Capital Redemption	15	17	18	18	18	18	20	20	20	20	20	20
Treasury Shares	(432)	(257)	(214)	(189)	(157)	(120)	(118)	(118)	(118)	(118)	(118)	(118)
Other Reserves	(375)	(228)	(340)	(324)	(329)	(346)	(459)	(459)	(459)	(459)	(459)	(459)
Retained Earnings	3,970	4,329	4,625	4,849	4,958	5,225	5,026	5,455	5,932	6,269	6,628	7,072
Total Equity	**3,958**	**4,644**	**4,874**	**5,141**	**5,279**	**5,568**	**5,259**	**5,688**	**6,165**	**6,502**	**6,861**	**7,305**
ANALYTICS	**FY16A**	**FY17A**	**FY18A**	**FY19A**	**FY20A**	**FY21A**	**FY22A**	**FY23E**	**FY24E**	**FY25E**	**FY26E**	**FY27E**
Working Capital (Simple)	1,081	1,216	1,247	1,378	1,214	1,003	1,791	1,904	1,768	1,979	2,111	2,239
Working Capital / Sales	23.2%	25.5%	25.4%	26.8%	26.6%	19.2%	34.3%	34.4%	30.3%	32.3%	32.9%	33.5%
Days Inventory Outstanding	96.2	97.6	100.4	106.9	132.3	123.8	141.7	151.2	143.8	135.5	136.3	136.8
Days Sales Outstanding	90.8	93.6	95.8	93.9	101.6	87.6	90.7	85.8	83.6	83.7	83.9	84.1
Days Payables Outstanding	247.6	269.2	269.1	273.2	270.4	250.5	260.0	253.2	255.5	262.7	255.6	255.9
Cash Conversion Cycle	(60.6)	(78.1)	(72.8)	(72.4)	(36.5)	(39.2)	(27.6)	(16.3)	(28.1)	(43.4)	(35.4)	(35.0)
Net Debt	(1,550)	(1,281)	(1,100)	(1,770)	(1,928)	(2,049)	(2,522)	(2,090)	(1,456)	(1,279)	(989)	(655)
Net Debt / EBITDA	1.2x	0.9x	0.8x	1.2x	1.7x	1.5x	2.0x	1.6x	1.0x	0.8x	0.6x	0.4x

Source: Company Reports, BofA Global Research estimates

BofA GLOBAL RESEARCH

Exhibit 63: S&N Cash Flow Statement

FY16A-FY27E, in $mn

S&N Cash Flow Statement ($mn)	FY16A	FY17A	FY18A	FY19A	FY20A	FY21A	FY22A	FY23E	FY24E	FY25E	FY26E	FY27E
Profit before Taxation	1,062	879	781	743	246	586	235	759	852	1,038	1,120	1,248
Net Interest	46	51	51	55	56	74	66	76	80	71	64	60
Depr, Amort, & Impair.	463	447	454	518	596	567	617	500	529	559	596	573
Loss on Disposal	15	13	-	-	-	14	11	-	-	-	-	-
Distribution from Trade	-	-	-	-	-	-	-	-	-	-	-	-
Share-Based Payments	27	31	35	32	-	-	40	-	-	-	-	-
Associates	3	(6)	11	(1)	(14)	(84)	141	(10)	(15)	(15)	(15)	(15)
Profit on Disposal (PP&E)	-	-	-	-	-	-	-	-	-	-	-	-
Profit on Disposal (Asset)	(326)	-	-	-	-	-	-	-	-	-	-	-
Pension Movement (Net)	(85)	(40)	(35)	(4)	27	41	6	(10)	(10)	(10)	(10)	(10)
Change in Inventories	(47)	(17)	(152)	(210)	(77)	(151)	(407)	(176)	163	(119)	(111)	(108)
Change in Receivables	(74)	(40)	(108)	(11)	117	(81)	(103)	(0)	(71)	(70)	(65)	(63)
Change in Payables / Other	(49)	(45)	71	249	21	82	(25)	63	44	(22)	43	43
Cash from Operations	**1,035**	**1,273**	**1,108**	**1,371**	**972**	**1,048**	**581**	**1,202**	**1,572**	**1,433**	**1,623**	**1,729**
Interest Received	3	2	-	-	6	6	7	14	10	19	26	30
Interest Paid	(48)	(50)	(52)	(52)	(65)	(80)	(73)	(90)	(90)	(90)	(90)	(90)
Income Tax Paid	(141)	(135)	(125)	(150)	22	(97)	(47)	(129)	(162)	(197)	(213)	(237)
Cash from Operations (Net)	**849**	**1,090**	**931**	**1,169**	**935**	**877**	**468**	**997**	**1,330**	**1,165**	**1,346**	**1,431**
Acquisitions	(214)	(159)	(29)	(869)	(170)	(285)	(113)	-	-	-	-	-
CAPEX	(392)	(376)	(347)	(408)	(443)	(408)	(358)	(369)	(493)	(494)	(517)	(540)
Associates	-	-	2	3	9	4	1	10	15	15	15	15
Investments	(2)	(8)	(4)	23	(2)	(2)	(2)	(5)	(5)	(5)	(5)	(5)
Associate Loan Redemption	-	-	-	-	-	-	-	-	-	-	-	-
Disposal of PP&E	-	-	-	-	-	-	-	-	-	-	-	-
Disposal of Business	343	-	-	-	-	-	-	-	-	-	-	-
Tax on Disposal of Business	(118)	-	-	-	-	-	-	-	-	-	-	-
Cash from Investing	**(383)**	**(543)**	**(378)**	**(1,251)**	**(606)**	**(691)**	**(472)**	**(364)**	**(483)**	**(484)**	**(507)**	**(530)**
Issue of Share Capital	10	5	3	2	2	2	1	-	-	-	-	-
Purchase of Own Shares	(368)	(52)	(48)	(63)	(16)	-	(158)	-	-	(275)	(275)	(275)
Proceeds from ST Debt	34	53	24	425	-	-	-	-	-	-	-	-
Settlement of ST Debt	(38)	(64)	(30)	-	-	(326)	(461)	-	-	-	-	-
Proceeds from LT Debt	890	570	370	-	1,545	-	485	-	-	-	-	-
Settlement of LT Debt	(759)	(706)	(371)	(46)	(55)	-	(474)	-	-	-	-	-
Proceeds from Own Shares	6	5	10	9	9	12	5	-	-	-	-	-
Settlement of FX Swaps	(25)	24	(8)	(2)	7	(4)	3	-	-	-	-	-
Dividends Paid	(279)	(269)	(321)	(318)	(328)	(329)	(327)	(201)	(212)	(229)	(273)	(292)
Cash from Financing	**(529)**	**(434)**	**(371)**	**7**	**1,164**	**(645)**	**(926)**	**(201)**	**(212)**	**(504)**	**(548)**	**(567)**
Change in Cash	(63)	113	182	(75)	1,493	(459)	(930)	432	634	176	291	334
FX	(1)	4	(4)	-	1	(7)	(11)	-	-	-	-	-
Change in Cash	**(64)**	**117**	**178**	**(75)**	**1,494**	**(466)**	**(941)**	**432**	**634**	**176**	**291**	**334**
ANALYTICS	**FY16A**	**FY17A**	**FY18A**	**FY19A**	**FY20A**	**FY21A**	**FY22A**	**FY23E**	**FY24E**	**FY25E**	**FY26E**	**FY27E**
CFO	849	1,090	931	1,169	935	877	468	997	1,330	1,165	1,346	1,431
CAPEX	(392)	(376)	(347)	(408)	(443)	(408)	(358)	(369)	(493)	(494)	(517)	(540)
Net Interest Add Back (Post Tax)	43	51	52	53	54	73	56	63	65	58	52	49
Free Cash Flow to Firm	500	765	636	814	546	542	166	692	902	728	881	940
Free Cash Flow to Equity	250	600	586	1,139	2,038	226	(433)	692	902	453	606	665
CFO (Pre Interest) / EBITDA	80%	94%	78%	90%	88%	79%	47%	91%	109%	87%	92%	93%

Source: Company Reports, BofA Global Research estimates

BofA GLOBAL RESEARCH

Price objective basis & risk

Smith & Nephew (SNNUF / SNN)

We arrive at our 1,320 GBp (US$34) PO by valuing S&N using the average of three core metrics, including DCF (£13), P/E (£14), and EV/EBITDA (£13) using one year forward multiples. Our valuation methodologies have the following core drivers and assumptions.

1] Price / earnings: we use a 19x multiple on earnings before converting to GBP at spot rates and discounting back at the cost of equity. We value S&N at a c. 15% discount to EMEA MedTech peers given exposure to slower growing end markets.

2] EV / EBITDA : we use a 12x multiple, again at a 15% discount to peers as per the rationale listed above. Debt is then stripped out and the value discounted back at the cost of equity

3] DCF we use a market risk premium of 3.8%, beta of 0.9x, a risk-free rate of 4.0%, and terminal growth rate of +2%. Our DCF-derived model implies a c. 20x earnings in FY24E, which is broadly in-line with our target earnings multiples.

Downside risks to PO: (1) material deterioration of the economy in relevant geographies, (2) unexpected changes in reimbursement, (3) higher than expected product trading down (4) negative impact from GLP-1 on market growth

Upside risks to PO: (1) Material acceleration of the economy in relevant geographies, (2) faster-than-expected turnaround in core execution & culture, (3) stronger-than-expected economy in any region that would accelerate demand for elective procedures, (4) more accretive acquisitions, (5) major product launches

Analyst Certification

I, Julien Ouaddour, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

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EMEA - Medtech & Services Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Amplifon	AMFPF	AMP IM	Julien Ouaddour
	Coloplast A/S	CLPBF	COLOB DC	Marianne Bulot
	Coloplast A/S	CLPBY	CLPBY US	Marianne Bulot
	Fresenius SE & Co KGaA	FSNUF	FRE GY	Marianne Bulot
	SCHOTT Pharma	XCVOF	1SXP GR	Julien Ouaddour
	Siemens Healthineers AG	SEMHF	SHL GY	Julien Ouaddour
	Siemens Healthineers AG	SMMNY	SMMNY US	Julien Ouaddour
	Smith & Nephew	SNNUF	SN/ LN	Julien Ouaddour
	Smith & Nephew	SNN	SNN US	Julien Ouaddour
	Sonova	SONVF	SOON SW	Julien Ouaddour
	Sonova Holding AG	SONVY	SONVY US	Julien Ouaddour
	Straumann	SAUHF	STMN SW	Julien Ouaddour
	Straumann	SAUHY	SAUHY US	Julien Ouaddour

EMEA - Medtech & Services Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
NEUTRAL				
	Alcon	ALC	ALC US	Julien Ouaddour
	Alcon	XSLCF	ALC SW	Julien Ouaddour
	Carl Zeiss Meditec AG	CZMWF	AFX GY	Julien Ouaddour
	ConvaTec	CNVVF	CTEC LN	Marianne Bulot
	Philips	PHG	PHG US	Julien Ouaddour
	Philips	RYLPF	PHIA NA	Julien Ouaddour
UNDERPERFORM				
	Demant	WILLF	DEMANT DC	Julien Ouaddour
	Elekta AB	EKTAF	EKTAB SS	Julien Ouaddour
	Fresenius Medical Care AG & Co. KGaA	FMS	FMS US	Marianne Bulot
	Fresenius Medical Care AG & Co. KGaA	FMCQF	FME GY	Marianne Bulot
	GN Store Nord	GGNDF	GN DC	Julien Ouaddour

*iQ*method SM Measures Definitions

Business Performance	Numerator	Denominator
Return On Capital Employed	NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5 Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings	**Numerator**	**Denominator**
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt – Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit	**Numerator**	**Denominator**
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap = Current Share Price × Current Basic Shares
Enterprise Value / Sales	EV = Current Share Price × Current Shares + Minority Equity + Net Debt + Other LT Liabilities	Sales
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

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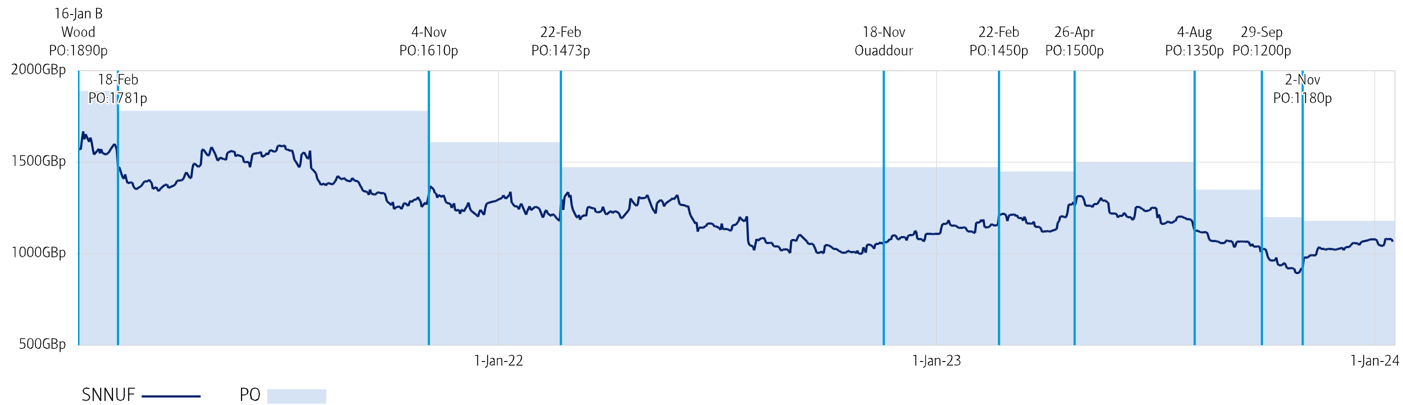
Important Disclosures

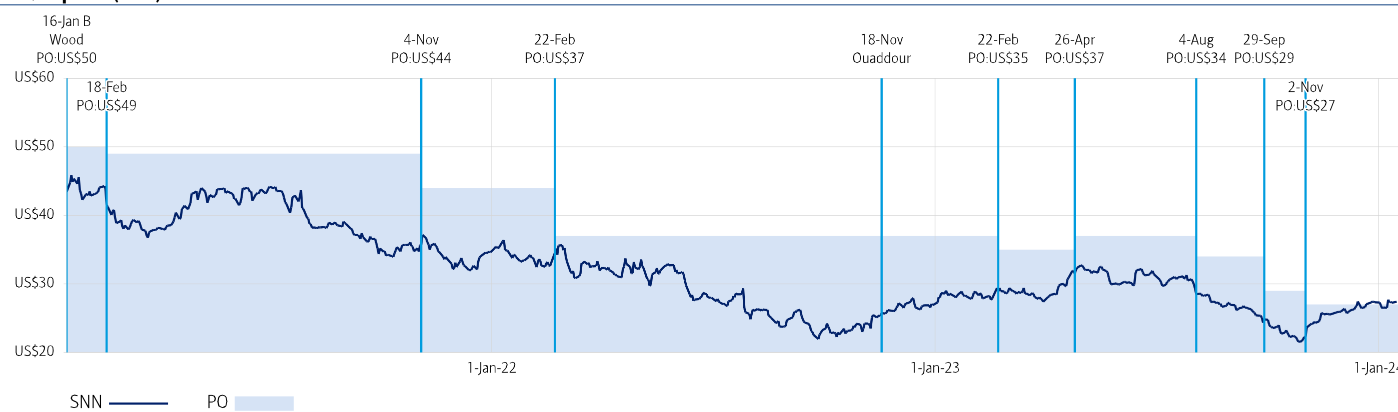
Smith & Nephew (SNNUF) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Smith & Nephew (SNN) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Health Care Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	234	60.94%	Buy	115	49.15%
Hold	80	20.83%	Hold	36	45.00%
Sell	70	18.23%	Sell	29	41.43%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

[R1] Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster[R2]
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

[R2]Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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