

Smith & Nephew

Q4 FY23 Results: Focus on fixing US Ortho and getting confidence in 25' guide

Reiterate Rating: BUY | PO: 1,320 GBp | Price: 1,114 GBp

Looking through H1, Turnaround story is on track.

Smith & Nephew reported a good FY23, over-delivering on topline growth by generating good performance in Ortho ex-US, fixing Trauma as well as continuing strong momentum in Sports and Wound, and at the same time achieving margin target. We believe the two main overhangs for long-term investors to revisit remain: 1) progress in improving performance in US Hips/Knees, especially after softer Q4 than expected, 2) more confidence in 2025 margin target of at least 20% margin. Even if management remains confident on actions which are being implemented to improve US Ortho (e.g. more available sets, increase set utilisation, drive commercial excellence), evidence of stable US market share is likely key. Also, despite the reiteration of 25' guide, the required c200bps sequential bridge next year continues to be seen as risky. We acknowledge that we might have to look through H1 for investors' to revisit the turnaround story as 1) Q1 faces tough comps and 2) lower H1 margin due to seasonality, which we expect to be 250-300bps. We believe S&N offers positive risk/reward for FY24-25 with good product pipeline and recovery perspective, for an appealing valuation vs EU MedTech (>30% discount). We expect +5.7% organic and 18.2% margin for FY24, and revise our FY24/25 EPS by 7%/5% due to below-the-line items (while trading profit broadly unchanged). We reiterate our Buy rating, and PO is unchanged (£13.2), supported by better outlook for WCR in our DCF after we saw inventories starting to fall in Q4.

Key takes from the call and roadshow with mgmt.:

1] US Ortho: strong growth OUS in Q4 (+14.1% Knees, +6.9% Hips), while US weaker (-3.8%, +1.1%) due to lack of product availability, sets deployment behind schedule and reps churn happened later than expected. Supply is 60% of the issue, rest is commercial.

2] Guidance: Mgmt called for Q1<Q2-Q4 due to Ortho comps, sequential slowdown in Bioactives post transfer of production, 1 less trading day. More normalized year for margin phasing, but seasonality likely slightly higher than long-term average. Pricing positive for FY24. China volume-base procurement: 5% headwind for Joint Repair's sales.

Estimates (Dec) (USD)	2022A	2023A	2024E	2025E	2026E
EPS (Adjusted Diluted)	0.82	0.83	0.86	1.07	1.21
EPS Change (YoY)	1.1%	1.0%	4.5%	24.2%	12.6%
Dividend / Share	0.23	0.23	0.24	0.30	0.34
Common EPS (Adjusted Diluted - US\$)	1.64	1.65	1.76	2.20	2.47
Common Dividend / Share (US\$)	0.46	0.46	0.49	0.61	0.69
Valuation (Dec)					
P/E	16.4x	17.2x	16.4x	13.2x	11.7x
Dividend Yield	1.63%	1.63%	1.71%	2.12%	2.39%
EV / EBITDA*	12.0x	11.8x	10.4x	9.10x	8.45x
Free Cash Flow Yield*	1.35%	2.14%	5.38%	6.73%	7.10%

* For full definitions of *IQmethod*SM measures, see page 10.

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Refer to important disclosures on page 11 to 14. Analyst Certification on page 9. Price Objective Basis/Risk on page 8.

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Equity

Key Changes

(US\$)	Previous	Current
2024E Rev (m)	5,837.3	5,849.8
2025E Rev (m)	6,134.3	6,162.2
2026E Rev (m)	6,409.0	6,468.6
2024E EPS	0.93	0.86
2025E EPS	1.13	1.07
2026E EPS	1.24	1.21
2024E DPS	0.26	0.24

Julien Ouaddour >>

Research Analyst
MLI (UK)
+44 20 7995 5049
julien.ouaddour@bofa.com

Marianne Bulot >>

Research Analyst
MLI (UK)
+44 20 7996 1033
marianne.bulot@bofa.com

Monica Zhuang >>

Research Analyst
MLI (UK)
monica.zhuang@bofa.com

Stock Data

Price (Common / Common)	1,114 GBp / 28.53 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)	9,740 GBP
Shares Outstanding (mn)	874.3 / 437.2
Average Daily Value (mn)	25.61 USD
Free Float	99.9%
BofA Ticker / Exchange	SNNUF / LSE
BofA Ticker / Exchange	SNN / NYS
Bloomberg / Reuters	SN/ LN / SN.L
ROE (2024E)	14.0%
Net Dbt to Eqty (Dec-2023A)	53.3%
ESGMeter TM	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](#)".

OUS: outside US

WCR: Wound Care

iQprofileSM Smith & Nephew

Key Income Statement Data (Dec)	2022A	2023A	2024E	2025E	2026E
(US\$ Millions)					
Sales	5,215	5,549	5,850	6,162	6,469
EBITDA Adjusted	1,245	1,263	1,427	1,637	1,762
Depreciation & Amortization	(343)	(294)	(364)	(391)	(426)
EBIT Adjusted	902	970	1,063	1,245	1,336
Net Interest & Other Income	(49.0)	(108)	(126)	(107)	(81.7)
Tax Expense / Benefit	(139)	(140)	(183)	(222)	(245)
Net Income (Adjusted)	714	722	754	916	1,010
Average Fully Diluted Shares Outstanding	873	874	874	855	836

Key Cash Flow Statement Data	2022A	2023A	2024E	2025E	2026E
Net Income (Reported)	223	263	527	781	871
Depreciation & Amortization	343	294	364	391	426
Change in Working Capital	(535)	(332)	(32.0)	(96.1)	(152)
Deferred Taxation Charge	0	0	0	0	0
Other CFO	437	384	148	151	154
Cash Flow from Operations	468	608	1,006	1,227	1,300
Capital Expenditure	(358)	(427)	(451)	(509)	(535)
(Acquisition) / Disposal of Investments	(2.00)	0	(5.00)	(5.00)	(5.00)
Other CFI	(112)	(21.0)	7.50	7.50	7.50
Cash Flow from Investing	(472)	(448)	(449)	(506)	(533)
Share Issue / (Repurchase)	(152)	0	0	(275)	(275)
Cost of Dividends Paid	(327)	(327)	(201)	(210)	(255)
Increase (decrease) debt	(467)	212	0	0	0
Other CFF	20.0	(85.0)	0	0	0
Cash Flow from Financing	(926)	(200)	(201)	(485)	(530)
Total Cash Flow (CFO + CFI + CFF)	(930)	(40.0)	356	236	237
FX and other changes to cash	(10.0)	(8.00)	0	0	0
Change in Cash	(940)	(48.0)	356	236	237
Change in Net Debt	473	260	(356)	(236)	(237)
Net Debt	2,522	2,782	2,426	2,190	1,953

Key Balance Sheet Data	2022A	2023A	2024E	2025E	2026E
Property, Plant & Equipment	1,455	1,470	1,504	1,546	1,576
Goodwill	3,031	2,992	2,984	2,984	2,984
Other Intangibles	1,236	1,110	1,007	914	821
Other Non-Current Assets	388	385	390	395	400
Trade Receivables	1,301	1,333	1,405	1,480	1,554
Cash & Equivalents	350	302	658	894	1,131
Other Current Assets	2,205	2,395	2,398	2,403	2,523
Total Assets	9,966	9,987	10,346	10,616	10,988
Long-Term Debt	2,712	2,319	2,319	2,319	2,319
Other Non-Current Liabilities	280	180	170	160	150
Short-Term Debt	160	765	765	765	765
Other Current Liabilities	1,555	1,506	1,550	1,534	1,575
Total Liabilities	4,707	4,770	4,804	4,778	4,809
Total Equity	5,259	5,217	5,543	5,839	6,180
Total Equity & Liabilities	9,966	9,987	10,346	10,616	10,989

Business Performance*	2022A	2023A	2024E	2025E	2026E
Return On Capital Employed	8.67%	9.95%	10.2%	11.6%	12.2%
Return On Equity	13.2%	13.8%	14.0%	16.1%	16.8%
Operating Margin	17.3%	17.5%	18.2%	20.2%	20.7%
Free Cash Flow (MM)	166	264	662	810	837

Quality of Earnings*	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	0.66x	0.84x	1.33x	1.34x	1.29x
Asset Replacement Ratio	1.04x	1.45x	1.24x	1.30x	1.26x
Tax Rate	16.3%	16.2%	19.5%	19.5%	19.5%
Net Debt/Equity	48.0%	53.3%	43.8%	37.5%	31.6%
Interest Cover	11.3x	7.35x	6.89x	8.08x	8.66x

* For full definitions of iQmethodSM measures, see page 10.

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 plays 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 a Buy rating as we believe more value sits within Orthopaedics business.

Stock Data

Shares / Common	2.00
Price to Book Value	2.2x

Key Changes

(US\$)	Previous	Current
2024E EPS	1.86	1.76
2025E EPS	2.26	2.20
2026E EPS	2.48	2.47
2024E DPS	0.53	0.49

Valuation: PO unchanged at £13.2

Exhibit 1: DCF using WACC of 6.6% (risk free-rate of 3.8% and risk premium at 4.0%), terminal growth rate at 2.0%. DCF fair value of £12.79/share
Our DCF values S&N at £12.79

DCF Model	FY24E	FY25E	FY26E	FY27E	FY28E	FY29E	FY30E	FY31E	FY32E	FY33E	FY34E
EBIT	898	1,077	1,164	1,301	1,378	1,454	1,533	1,612	1,691	1,771	1,855
Tax	(175)	(210)	(227)	(254)	(269)	(283)	(299)	(314)	(330)	(345)	(362)
NOPAT	723	867	937	1,047	1,110	1,170	1,234	1,297	1,361	1,426	1,493
Add Back: D&A	529	560	598	578	536	572	609	648	646	685	725
Gross Cash Flow	1,252	1,427	1,535	1,625	1,646	1,742	1,843	1,945	2,007	2,110	2,219
Change in Working Capital	334	(32)	(96)	(152)	(142)	(143)	(142)	(149)	(149)	(152)	(154)
CAPEX	(451)	(509)	(535)	(560)	(586)	(611)	(638)	(665)	(692)	(720)	(749)
Restructuring Costs	(118)	-	-	-	-	-	-	-	-	-	-
Base Year Share Buyback	-	(275)	(275)	(275)	(275)	(275)	(275)	(275)	(275)	(275)	(275)
Investing Cash Flow	(235)	(816)	(906)	(987)	(1,003)	(1,030)	(1,055)	(1,088)	(1,116)	(1,147)	(1,178)
Net Cash Flow	1,017	611	629	638	642	712	788	857	891	964	1,040
Discount Factor	0.94	0.89	0.83	0.78	0.73	0.69	0.64	0.60	0.57	0.53	0.50
Discounted Cash Flows	960	541	522	497	469	488	507	517	504	511	518
Sum of Specific Cash Flows	6,036										
Present Value of Terminal Value	11,029										
Net Debt - 2023	(2,782)										
Other Liabilities - 2023	(123)										
Company Value (\$mn)	14,160										
USD:GBP	1.27										
Value Per Share (Diluted)	£12.79										

Source: BofA Global Research Estimates

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Exhibit 2: P/E multiple unchanged at 19.1x
P/E methodology derives fair value of £13.37

P/E Calculation	2024E	2025E
Diluted EPSA	0.87	1.08
Portion of Year	89%	11%
NTM EPS	0.89	
NTM P/E	19.1x	
Value (\$)	16.96	
USD:GBP	1.27	
Value (£)	£13.37	

Source: BofA Global Research Estimates

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Exhibit 3: EBITDA multiple unchanged at 12.1x
EBITDA methodology derives fair value of £13.5

EV/EBITDA Calculation	2024E	2025E
EBITDA	1,427	1,637
Portion of Year	89%	11%
NTM EBITDA	1,449	
NTM EV/EBITDA	12.1x	
EV (\$)	17,495	
Net Debt - 2024	(2,426)	
Other Liabilities - 2024	(113)	
Market Cap (\$)	14,956	
USD:GBP	1.27	
Value (£)	£13.50	

Source: BofA Global Research Estimates

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Exhibit 4: PO unchanged at £13.2
Equally weighted methodologies

Value Per Share	
EV/EBITDA	£13.50
DCF	£12.79
P/E	£13.37
Average	£13.2

Source: BofA Global Research Estimates

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Earnings Changes

Exhibit 5: We cut our FY24 EPS by 7%, primarily due to higher interest expense and tax rate as guided by management.

Old vs New estimates. Data in \$mn.

SN Changes - 2024				SN Changes - 2025			
	Old	New	Change		Old	New	Change
Knee Implants	996	984	(1.1%)	Knee Implants	1,045	1,033	(1.1%)
Hip Implants	624	624	0.0%	Hip Implants	643	646	0.5%
Other Reconstruction	123	125	1.6%	Other Reconstruction	135	138	1.6%
Trauma	593	599	1.0%	Trauma	616	626	1.5%
Sports Medicine	1,017	996	(2.1%)	Sports Medicine	1,094	1,081	(1.2%)
Arthroscopic Tech.	592	610	3.0%	Arthroscopic Tech.	604	622	3.0%
ENT	206	211	2.4%	ENT	214	220	2.4%
Wound Care	759	748	(1.4%)	Wound Care	793	778	(1.9%)
Bioactives	577	584	1.3%	Bioactives	612	620	1.3%
Wound Devices	349	366	4.9%	Wound Devices	377	399	5.9%
Group Sales	5,837	5,850	0.2%	Group Sales	6,134	6,162	0.5%
Cost of Goods Sold	(1,690)	(1,802)	6.6%	Cost of Goods Sold	(1,659)	(1,775)	7.0%
Gross Profit	4,147	4,048	(2.4%)	Gross Profit	4,475	4,387	(2.0%)
Marketing / Selling	(2,322)	(2,282)	(1.7%)	Marketing / Selling	(2,446)	(2,413)	(1.3%)
Admin Costs	(384)	(348)	(9.5%)	Admin Costs	(396)	(358)	(9.5%)
R&D	(373)	(356)	(4.6%)	R&D	(384)	(370)	(3.7%)
Trading Profit	1,068	1,063	(0.5%)	Trading Profit	1,250	1,245	(0.3%)
Interest Income	10	28	186.7%	Interest Income	19	41	117.4%
Interest Expense	(89)	(154)	73.2%	Interest Expense	(89)	(154)	73.2%
Other Finance Costs	(1)	(7)	600.0%	Other Finance Costs	(1)	(1)	-
Associates	15	8	(50.0%)	Associates	15	8	(50.0%)
EBT	1,003	937	(6.6%)	EBT	1,193	1,139	(4.6%)
Underlying Tax	(191)	(183)	(4.1%)	Underlying Tax	(227)	(222)	(2.1%)
Net Income	812	754	(7.2%)	Net Income	967	916	(5.2%)
Post Tax Exceptionals	(123)	(227)	85.5%	Post Tax Exceptionals	(126)	(135)	7.8%
Net Income (Reported)	690	527	(23.6%)	Net Income (Reported)	841	781	(7.1%)
Basic EPSA (Pre-Exceptionals)	0.93	0.87	(7.0%)	Basic EPSA (Pre-Exceptionals)	1.13	1.08	(5.1%)
Basic EPS (Pre-Exceptionals)	0.82	0.74	(9.3%)	Basic EPS (Pre-Exceptionals)	1.01	0.95	(6.6%)
Basic EPS (Post-Exceptionals)	0.79	0.60	(23.5%)	Basic EPS (Post-Exceptionals)	0.99	0.92	(7.0%)
GROWTH				GROWTH			
	Old	New	Change		Old	New	Change
Sales	5.4%	5.4%	(0.0%)	Sales	5.1%	5.3%	0.3%
EBIT	9.8%	9.6%	(0.1%)	EBIT	17.0%	17.2%	0.2%
EBT	10.5%	8.7%	(1.8%)	EBT	19.0%	21.5%	2.5%
Net Income	7.9%	4.5%	(3.4%)	Net Income	19.0%	21.5%	2.5%
Diluted EPS	7.9%	4.5%	(3.4%)	Diluted EPS	21.6%	24.2%	2.6%
MARGINS				MARGINS			
	Old	New	Change		Old	New	Change
Gross Margin	71.0%	69.2%	(1.8%)	Gross Margin	72.9%	71.2%	(1.76%)
Marketing / Selling	-39.8%	-39.0%	0.8%	Marketing / Selling	-39.9%	-39.2%	0.7%
Admin Costs	-6.6%	-5.9%	0.6%	Admin Costs	-6.4%	-5.8%	0.6%
R&D	-6.4%	-6.1%	0.3%	R&D	-6.3%	-6.0%	0.3%
EBITDA Margin	24.8%	24.4%	(0.4%)	EBITDA Margin	27.0%	26.6%	(0.4%)
EBITA Margin	18.3%	18.2%	(0.1%)	EBITA Margin	20.4%	20.2%	(0.2%)
EBIT Margin	15.7%	15.3%	(0.4%)	EBIT Margin	17.8%	17.5%	(0.4%)
EBT Margin	17.2%	16.0%	(1.2%)	EBT Margin	19.5%	18.5%	(1.0%)
Effective Tax Rate	19.0%	19.5%	0.5%	Effective Tax Rate	19.0%	19.5%	0.5%
Net Margin	13.9%	12.9%	(1.0%)	Net Margin	15.8%	14.9%	(0.9%)
RETURNS				RETURNS			
	Old	New	Change		Old	New	Change
Asset Turn	0.55x	0.58x	0.0x	Asset Turn	0.55x	0.59x	0.0x
EBIT Margin	15.7%	15.3%	(0.4%)	EBIT Margin	17.8%	17.5%	(0.4%)
Tax Rate	19.0%	19.5%	0.5%	Tax Rate	19.0%	19.5%	0.5%
ROIC Including Goodwill	0.10x	0.09x	(0.6%)	ROIC Including Goodwill	0.12x	0.11x	(0.7%)
ROIC Excluding Goodwill	0.16x	0.14x	(1.4%)	ROIC Excluding Goodwill	0.19x	0.17x	(1.6%)
Return on Equity	0.14x	0.14x	0.3%	Return on Equity	0.15x	0.16x	0.8%

Source: BofA Global Research Estimates

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Financial Statements

Exhibit 6: S&N Income Statement

FY16A – 27E, in \$mn

S&N Income Statement (\$mn)	FY16A	FY17A	FY18A	FY19A	FY20A	FY21A	FY22A	FY23A	FY24E	FY25E	FY26E	FY27E
Knee Implants	932	984	1,017	1,042	822	876	899	940	984	1,033	1,074	1,116
Hip Implants	597	599	613	613	567	612	584	599	624	646	665	685
Other Reconstruction	214	45	62	79	68	92	87	111	125	138	151	164
Trauma	475	479	476	488	460	576	543	564	599	626	654	677
Sports Medicine	587	650	717	794	710	839	870	945	996	1,081	1,162	1,238
Arthroscopic Tech.	631	615	600	591	517	590	567	588	610	622	635	647
ENT	-	137	144	151	106	131	153	196	211	220	226	233
Wound Care	719	720	740	714	647	731	712	725	748	778	810	834
Bioactives	342	342	320	424	431	496	520	553	584	620	657	690
Wound Devices	172	194	215	242	232	269	280	328	366	399	435	475
Group Sales	4,669	4,765	4,904	5,138	4,560	5,212	5,215	5,549	5,850	6,162	6,469	6,757
Cost of Goods Sold	(1,272)	(1,248)	(1,298)	(1,338)	(1,396)	(1,543)	(1,540)	(1,730)	(1,802)	(1,775)	(1,843)	(1,908)
Gross Profit	3,397	3,517	3,606	3,800	3,164	3,669	3,675	3,819	4,048	4,387	4,625	4,849
Marketing / Selling	(1,712)	(1,781)	(1,820)	(1,911)	(1,773)	(2,013)	(2,066)	(2,169)	(2,282)	(2,413)	(2,539)	(2,659)
Admin Costs	(435)	(465)	(441)	(428)	(401)	(364)	(362)	(341)	(348)	(358)	(365)	(372)
R&D	(230)	(223)	(246)	(292)	(307)	(356)	(345)	(339)	(356)	(370)	(385)	(400)
Trading Profit	1,020	1,048	1,099	1,169	683	936	902	970	1,063	1,245	1,336	1,418
Interest Income	6	6	8	10	6	6	14	34	28	41	66	86
Interest Expense	(52)	(57)	(59)	(65)	(62)	(80)	(80)	(132)	(154)	(154)	(154)	(154)
Other Finance Costs	(11)	(10)	(11)	(11)	(5)	(14)	(1)	(1)	(7)	(1)	(1)	(1)
Associates	2	6	(11)	1	14	9	18	(9)	8	8	8	8
EBT	965	993	1,026	1,104	636	857	853	862	937	1,139	1,254	1,356
Underlying Tax	(230)	(170)	(166)	(211)	(72)	(147)	(139)	(140)	(183)	(222)	(245)	(264)
Net Income	735	823	860	893	564	710	714	722	754	916	1,010	1,092
Post Tax Exceptionals	49	(56)	(197)	(293)	(116)	(186)	(491)	(459)	(227)	(135)	(138)	(94)
Net Income (Reported)	784	767	663	600	448	524	223	263	527	781	871	997
Basic EPSA (Pre-Exceptionals)	0.83	0.94	0.99	1.02	0.65	0.81	0.82	0.83	0.87	1.08	1.21	1.34
Basic EPS (Pre-Exceptionals)	0.69	0.84	0.90	0.91	0.52	0.68	0.66	0.67	0.74	0.95	1.08	1.25
Basic EPS (Post-Exceptionals)	0.88	0.88	0.76	0.69	0.51	0.60	0.26	0.30	0.60	0.92	1.05	1.22
GROWTH	FY16A	FY17A	FY18A	FY19A	FY20A	FY21A	FY22A	FY23A	FY24E	FY25E	FY26E	FY27E
Sales	0.8%	2.1%	2.9%	4.8%	-11.2%	14.3%	0.1%	6.4%	5.4%	5.3%	5.0%	4.5%
EBIT	-7.2%	2.7%	4.9%	6.4%	-41.6%	37.0%	-3.6%	7.5%	9.6%	17.2%	7.3%	6.1%
EBT	-7.2%	2.9%	3.3%	7.6%	-42.4%	34.7%	-0.5%	1.0%	8.7%	21.5%	10.2%	8.1%
Net Income	-3.4%	12.0%	4.5%	3.8%	-36.8%	25.9%	0.6%	1.1%	4.5%	21.5%	10.2%	8.1%
Diluted EPS	-2.8%	14.3%	4.4%	3.7%	-36.7%	25.5%	1.1%	1.0%	4.5%	24.2%	12.6%	10.6%
MARGINS	FY16A	FY17A	FY18A	FY19A	FY20A	FY21A	FY22A	FY23A	FY24E	FY25E	FY26E	FY27E
Gross Margin	72.8%	73.8%	73.5%	74.0%	69.4%	70.4%	70.5%	68.8%	69.2%	71.2%	71.5%	71.8%
Marketing / Selling	-36.7%	-37.4%	-37.1%	-37.2%	-38.9%	-38.6%	-39.6%	-39.1%	-39.0%	-39.2%	-39.3%	-39.3%
Admin Costs	-9.3%	-9.8%	-9.0%	-8.3%	-8.8%	-7.0%	-6.9%	-6.1%	-5.9%	-5.8%	-5.6%	-5.5%
R&D	-4.9%	-4.7%	-5.0%	-5.7%	-6.7%	-6.8%	-6.6%	-6.1%	-6.1%	-6.0%	-6.0%	-5.9%
EBITDA Margin	27.6%	28.4%	28.9%	29.6%	24.3%	25.5%	23.9%	22.8%	24.4%	26.6%	27.2%	27.8%
EBITA Margin	21.8%	22.0%	22.4%	22.8%	15.0%	18.0%	17.3%	17.5%	18.2%	20.2%	20.7%	21.0%
EBIT Margin	18.0%	19.1%	20.1%	20.0%	11.2%	14.7%	13.4%	13.7%	15.3%	17.5%	18.0%	19.2%
EBT Margin	20.7%	20.8%	20.9%	21.5%	13.9%	16.4%	16.4%	15.5%	16.0%	18.5%	19.4%	20.1%
Effective Tax Rate	23.8%	17.1%	16.2%	19.1%	11.3%	17.2%	16.3%	16.2%	19.5%	19.5%	19.5%	19.5%
Net Margin	15.7%	17.3%	17.5%	17.4%	12.4%	13.6%	13.7%	13.0%	12.9%	14.9%	15.6%	16.2%

Source: Company Reports, BofA Global Research Estimates

BofA GLOBAL RESEARCH



Exhibit 7: S&N Balance Sheet

FY16A – 27E, in \$mn

S&N Balance Sheet (\$mn)	FY16A	FY17A	FY18A	FY19A	FY20A	FY21A	FY22A	FY23A	FY24E	FY25E	FY26E	FY27E
Cash	100	169	365	277	1,762	1,290	350	302	658	894	1,131	1,432
Inventories	1,244	1,304	1,395	1,614	1,691	1,844	2,205	2,395	2,398	2,403	2,523	2,635
Receivables	1,185	1,258	1,317	1,328	1,211	1,290	1,301	1,333	1,405	1,480	1,554	1,623
Current Assets	2,529	2,731	3,077	3,219	4,664	4,424	3,856	4,030	4,462	4,777	5,207	5,691
PP&E	982	1,049	1,062	1,323	1,449	1,513	1,455	1,470	1,504	1,546	1,576	1,591
Goodwill	2,188	2,371	2,337	2,789	2,928	2,989	3,031	2,992	2,984	2,984	2,984	2,984
Intangibles	1,411	1,371	1,210	1,567	1,486	1,398	1,236	1,110	1,007	914	821	788
Investments	25	21	34	7	9	10	12	8	13	18	23	28
Associates	112	118	105	103	108	188	46	16	16	16	16	16
Retirement & Other	-	78	109	141	166	197	153	87	87	87	87	87
Deferred Tax Assets	97	127	126	150	202	201	177	274	274	274	274	274
Non-Current Assets	4,815	5,135	4,982	6,080	6,348	6,496	6,110	5,957	5,884	5,839	5,781	5,768
Debt	86	27	164	72	337	491	160	765	765	765	765	765
Payables	884	957	957	1,046	1,022	1,096	1,098	1,055	1,099	1,083	1,124	1,164
Provisions	147	129	121	203	123	322	243	233	233	233	233	233
Tax Payables	231	233	223	243	206	222	214	218	218	218	218	218
Current Liabilities	1,348	1,346	1,465	1,564	1,688	2,131	1,715	2,271	2,315	2,299	2,340	2,380
Debt	1,564	1,423	1,301	1,975	3,353	2,848	2,712	2,319	2,319	2,319	2,319	2,319
Pension	164	131	114	136	163	127	70	88	78	68	58	48
Other Payables	82	128	53	102	94	67	90	35	35	35	35	35
Provisions	134	97	153	214	294	35	84	48	48	48	48	48
Deferred Tax	94	97	99	167	141	144	36	9	9	9	9	9
Non-Current Liabilities	2,038	1,876	1,720	2,594	4,045	3,221	2,992	2,499	2,489	2,479	2,469	2,459
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)	(94)	(94)	(94)	(94)	(94)
Other Reserves	(375)	(228)	(340)	(324)	(329)	(346)	(459)	(405)	(405)	(405)	(405)	(405)
Retained Earnings	3,970	4,329	4,625	4,849	4,958	5,225	5,026	4,906	5,232	5,528	5,869	6,310
Total Equity	3,958	4,644	4,874	5,141	5,279	5,568	5,259	5,217	5,543	5,839	6,180	6,621
ANALYTICS	FY16A	FY17A	FY18A	FY19A	FY20A	FY21A	FY22A	FY23A	FY24E	FY25E	FY26E	FY27E
Working Capital (Simple)	1,081	1,216	1,247	1,378	1,214	1,003	1,791	1,457	1,489	1,585	1,737	1,879
Working Capital / Sales	23.2%	25.5%	25.4%	26.8%	26.6%	19.2%	34.3%	26.3%	25.5%	25.7%	26.8%	27.8%
Days Inventory Outstanding	96.2	97.6	100.4	106.9	132.3	123.8	141.7	151.3	149.5	142.2	139.0	139.3
Days Sales Outstanding	90.8	93.6	95.8	93.9	101.6	87.6	90.7	86.6	85.4	85.5	85.6	85.8
Days Payables Outstanding	247.6	269.2	269.1	273.2	270.4	250.5	260.0	227.1	218.2	224.3	218.5	218.8
Cash Conversion Cycle	(60.6)	(78.1)	(72.8)	(72.4)	(36.5)	(39.2)	(27.6)	10.8	16.8	3.4	6.1	6.3
Net Debt	(1,550)	(1,281)	(1,100)	(1,770)	(1,928)	(2,049)	(2,522)	(2,782)	(2,426)	(2,190)	(1,953)	(1,652)
Net Debt / EBITDA	1.2x	0.9x	0.8x	1.2x	1.7x	1.5x	2.0x	2.2x	1.7x	1.3x	1.1x	0.9x

Source: Company Reports, BofA Global Research Estimates

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Exhibit 8: S&N Cash Flow Statement

FY16A – 27E, in \$mn

S&N Cash Flow Statement (\$mn)	FY16A	FY17A	FY18A	FY19A	FY20A	FY21A	FY22A	FY23A	FY24E	FY25E	FY26E	FY27E
Profit before Taxation	1,062	879	781	743	246	586	235	290	654	970	1,083	1,239
Net Interest	46	51	51	55	56	74	66	98	133	114	89	69
Depr, Amort, & Impair.	463	447	454	518	596	567	617	701	529	560	598	578
Loss on Disposal	15	13	-	-	-	14	11	-	-	-	-	-
Distribution from Trade	-	-	-	-	-	-	-	-	-	-	-	-
Share-Based Payments	27	31	35	32	-	-	40	39	-	-	-	-
Associates	3	(6)	11	(1)	(14)	(84)	141	30	(8)	(8)	(8)	(8)
Profit on Disposal (PP&E)	-	-	-	-	-	-	-	-	-	-	-	-
Profit on Disposal (Asset)	(326)	-	-	-	-	-	-	-	-	-	-	-
Pension Movement (Net)	(85)	(40)	(35)	(4)	27	41	6	3	(10)	(10)	(10)	(10)
Change in Inventories	(47)	(17)	(152)	(210)	(77)	(151)	(407)	(190)	(3)	(5)	(120)	(113)
Change in Receivables	(74)	(40)	(108)	(11)	117	(81)	(103)	(32)	(72)	(75)	(74)	(69)
Change in Payables / Other	(49)	(45)	71	249	21	82	(25)	(110)	44	(16)	41	40
Cash from Operations	1,035	1,273	1,108	1,371	972	1,048	581	829	1,267	1,531	1,600	1,727
Interest Received	3	2	-	-	6	6	7	34	28	41	66	86
Interest Paid	(48)	(50)	(52)	(52)	(65)	(80)	(73)	(130)	(161)	(155)	(155)	(155)
Income Tax Paid	(141)	(135)	(125)	(150)	22	(97)	(47)	(125)	(128)	(189)	(211)	(242)
Cash from Operations (Net)	849	1,090	931	1,169	935	877	468	608	1,006	1,227	1,300	1,416
Acquisitions	(214)	(159)	(29)	(869)	(170)	(285)	(113)	(21)	-	-	-	-
CAPEX	(392)	(376)	(347)	(408)	(443)	(408)	(358)	(427)	(451)	(509)	(535)	(560)
Associates	-	-	2	3	9	4	1	-	8	8	8	8
Investments	(2)	(8)	(4)	23	(2)	(2)	(2)	-	(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)	(448)	(449)	(506)	(533)	(558)
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	-	-	-	175	-	-	-	-
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)	(52)	-	-	-	-
Proceeds from Own Shares	6	5	10	9	9	12	5	-	-	-	-	-
Settlement of FX Swaps	(25)	24	(8)	(2)	7	(4)	3	4	-	-	-	-
Dividends Paid	(279)	(269)	(321)	(318)	(328)	(329)	(327)	(327)	(201)	(210)	(255)	(281)
Cash from Financing	(529)	(434)	(371)	7	1,164	(645)	(926)	(200)	(201)	(485)	(530)	(556)
Change in Cash	(63)	113	182	(75)	1,493	(459)	(930)	(40)	356	236	237	301
FX	(1)	4	(4)	-	1	(7)	(11)	(4)	-	-	-	-
Change in Cash	(64)	117	178	(75)	1,494	(466)	(941)	(44)	356	236	237	301
ANALYTICS	FY16A	FY17A	FY18A	FY19A	FY20A	FY21A	FY22A	FY23A	FY24E	FY25E	FY26E	FY27E
CFO	849	1,090	931	1,169	935	877	468	608	1,006	1,227	1,300	1,416
CAPEX	(392)	(376)	(347)	(408)	(443)	(408)	(358)	(427)	(451)	(509)	(535)	(560)
Net Interest Add Back (Post Tax)	43	51	52	53	54	73	56	83	107	92	72	56
Free Cash Flow to Firm	500	765	636	814	546	542	166	264	662	810	837	911
Free Cash Flow to Equity	250	600	586	1,139	2,038	226	(433)	391	662	535	562	636
CFO (Pre Interest) / EBITDA	80%	94%	78%	90%	88%	79%	47%	66%	89%	94%	91%	92%

Source: Company Reports, BofA Global Research Estimates

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Price objective basis & risk

Smith & Nephew (SNNUF)

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

Smith & Nephew (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.

Special Disclosures

BofA Securities is currently acting as Financial Advisor to Smith & Nephew PLC in connection with the acquisition of Cartiheal Ltd, which was announced on November 22, 2023.

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
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
	Demant	WILLF	DEMANT DC	Julien Ouaddour
	Philips	PHG	PHG US	Julien Ouaddour
	Philips	RYLPF	PHIA NA	Julien Ouaddour
UNDERPERFORM				
	Elekta AB	EKTAF	EKTAB SS	Julien Ouaddour
	Fresenius Medical Care AG	FMS	FMS US	Marianne Bulot
	Fresenius Medical Care AG	FMCQF	FME GY	Marianne Bulot
	GN Store Nord	GGNDF	GN DC	Julien Ouaddour

iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

Numerator

$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) \times (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

$\text{EV} = \text{Current Share Price} \times \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} +$

Other LT Liabilities

Enterprise Value

Denominator

$\text{Total Assets} - \text{Current Liabilities} + \text{ST Debt} + \text{Accumulated Goodwill}$

Amortization

Shareholders' Equity

Sales

N/A

N/A

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

$\text{Market Cap} = \text{Current Share Price} \times \text{Current Basic Shares}$

Sales

Basic EBIT + Depreciation + Amortization

iQmethodSM is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

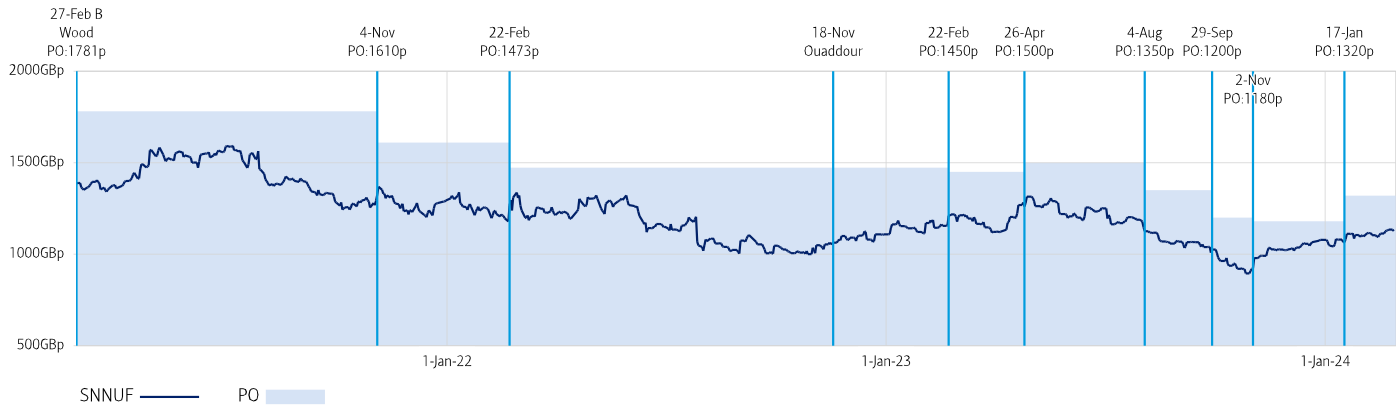
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Disclosures

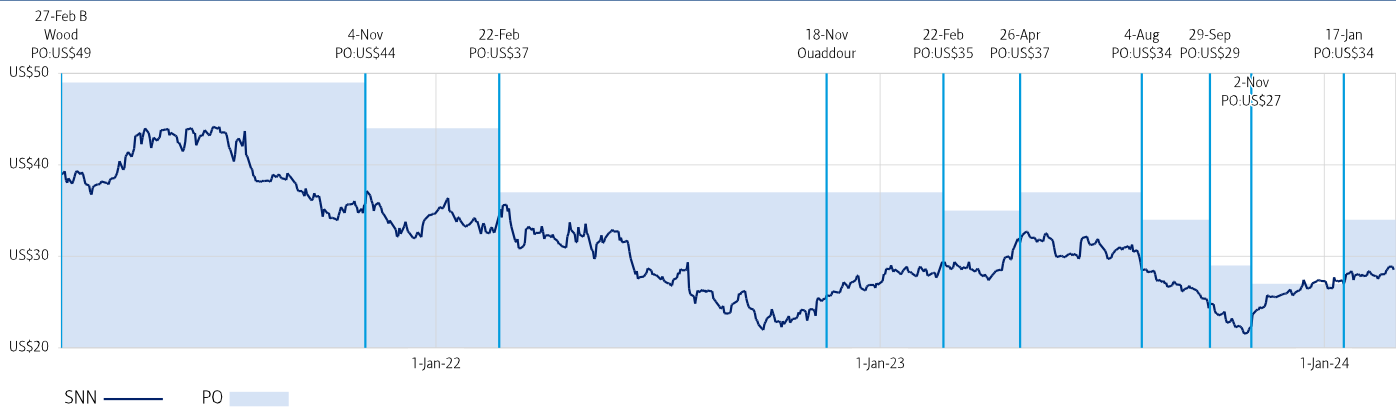
Important Disclosures

Smith & Nephew (SNNUF) Price Chart



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



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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