Executive summary

We evaluate Smith & Nephew using DCF, SOTP and risk-adjusted NPV, cross-checked to trading comparables. All figures in USD unless noted.

Valuation method	Value per ADR	Vs current ($36.82)
DCF	$38.84	5.5% vs $36.82
SOTP	$41.03	11.4% vs $36.82
rNPV	$51.37	39.5% vs $36.82
Median / Average	$41.03 / $43.75	11.4% / 18.8%

Investment thesis

- Resilient cash flows from procedure-linked demand and an attractive aftermarket in implants and consumables.
- Margin repair is the near-term equity driver; each sustainable +1pt margin is material for equity value.
- Mix shift toward Sports Medicine and Advanced Wound is positive; Orthopaedics execution remains the swing factor for the multiple.
- Balance sheet flexibility allows tightly screened bolt-ons and buybacks without compromising resilience.
- Pipeline optionality is real but must be earned through adoption and utilisation data.

Context from recent disclosures and industry sources

Management reports the 12-point improvement plan largely complete with margin expansion across all units in 2024, and reiterated 2025 guidance for mid-single-digit growth and higher trading margins. H1 2025 results also introduced a sizeable buyback, signalling confidence in cash generation. Externally, China remains a swing factor following 2024 volume-based procurement pressure; by contrast, innovation cadence in Sports Medicine stays a relative bright spot. The CORI handheld robotics platform now covers primary and revision knee, hip and partial procedures with image-free mapping, which supports adoption, although capital intensity and training remain practical constraints.

Operating discipline – model signals

Metric	Observation
EBIT margin trajectory	Mid-teens by outer years; upside if Orthopaedics normalises
Capex as % of sales	≈ 7.7% through the explicit period
D&A as % of sales	≈ 7.7%; broadly offsets sustaining capex
Change in NWC as % of sales	Improves from ≈ −2.4% to ≈ −1.9%
FCF yield on EV	3.1% rising to 4.2% by 2029

Valuation

Trading comparables

- Peer medians: EV/EBITDA ~16.5x; EV/EBIT ~20.6x; EV/Sales ~5.4x.

• Smith & Nephew EBITDA margin ~23% vs peer ~31%, so profit-based multiples screen lower than sales-based.

• Blended comps indication: $56.85 per ADR vs $36.82 live (approx. 54% upside).

Approach	Per ADR ($)	Basis
EV/Sales (median)	$84.43	5.41x on Sales
EV/EBITDA (median)	$56.54	16.51x on EBITDA
EV/EBIT (median)	$45.43	20.65x on EBIT
P/E (median)	$41.00	33.53x on EPS
Blended (simple average)	$56.85	Equal-weighted across four approaches

Discounted cash flow (DCF)

• Base case per ADR $50.49; terminal value is the dominant EV component.

• Inputs: risk-free ~4.10%, beta ~0.67, ERP ~3.80% → WACC ~5.80%; terminal growth ~2.0%.

• Sensitivity around base inputs is modest; WACC/g moves of ±0.25pt drive c. $1 move in fair value.

Sum-of-the-parts (SOTP)

• Value density sits in Sports Med & ENT; Advanced Wound steady; Orthopaedics is the margin swing factor.

• Segment EVs sum to ≈ $27.2bn; equity output consistent with the per-ADR figure used in the summary.

Pipeline rNPV

• Risk-weighted pipeline adds ≈ $33.1bn with Sports Med & ENT leading the risked value.

• Realisation requires adoption, training throughput and sustained service levels.

Valuation triangulation

Comps, DCF, SOTP and rNPV cluster in a tight band; we anchor to the mid-50s given mix and execution path.

Risks, proof points and catalysts

Risks

• Orthopaedics execution and pricing pressure.

• China demand variability following volume-based procurement.

• FX translation.

Proof points

• Sequential margin expansion and FCF conversion.

• Stable service levels and throughput gains in Orthopaedics.

• Visible adoption of pipeline launches.

Catalysts

• Operational normalisation across units.

• Sustained Sports Med and Wound growth cadence.

• Balanced capital allocation, including opportunistic buybacks.

Notes and sources

Source: Client DCF, SOTP and rNPV workbooks; three-statement model; company disclosures; third-party industry sources. Figures USD unless noted.

Exhibit 1: DCF per-ADR sensitivity (WACC × g around base case)

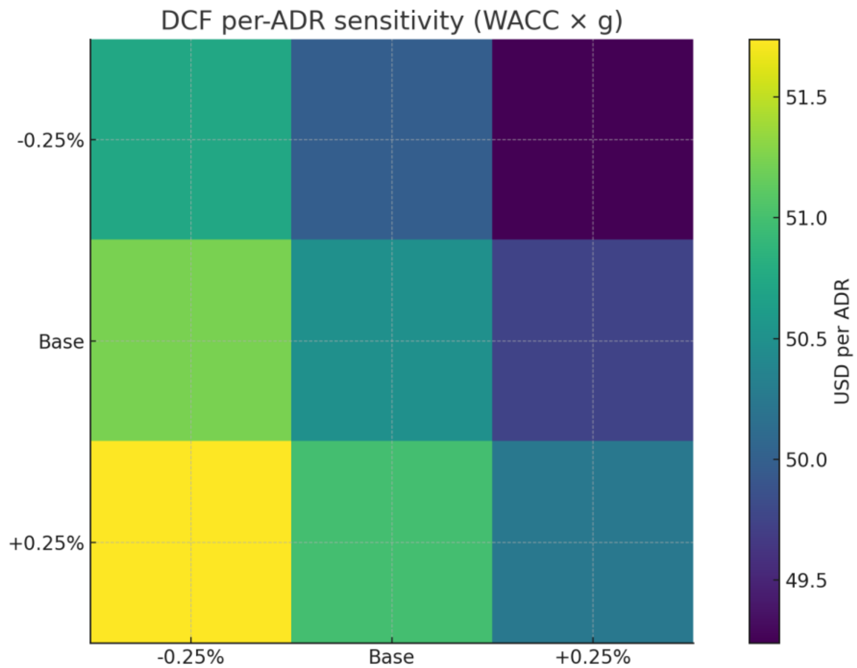

Exhibit 2: SOTP segment EVs (USD m)

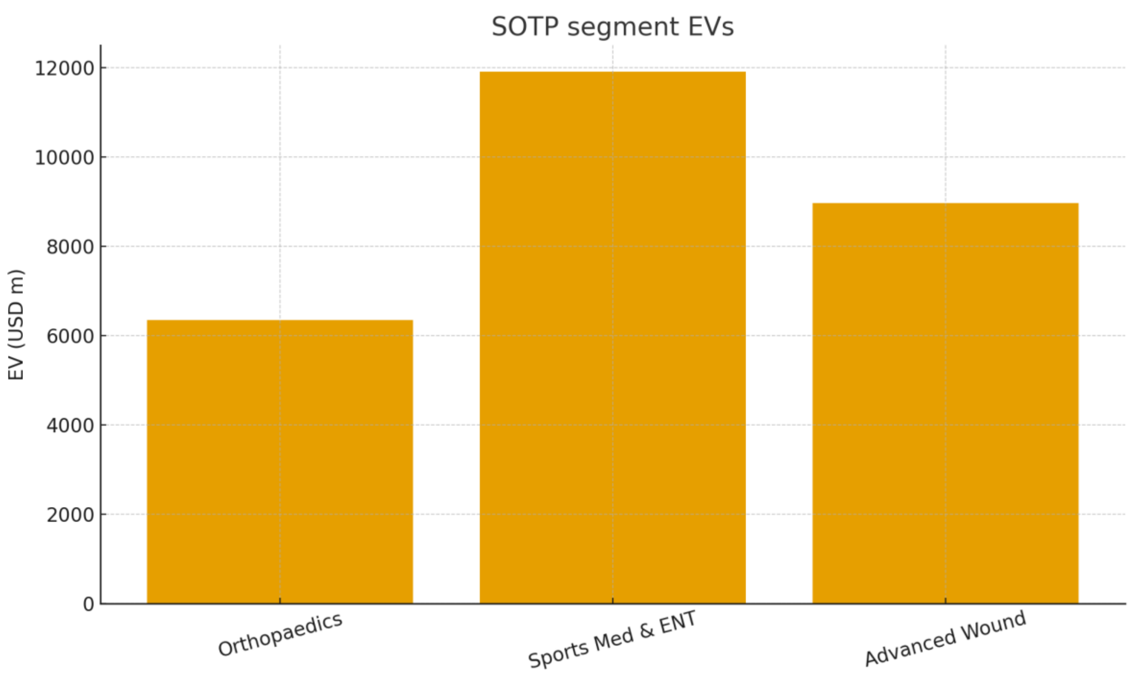

Exhibit 3: Risk-weighted pipeline by segment (USD m)

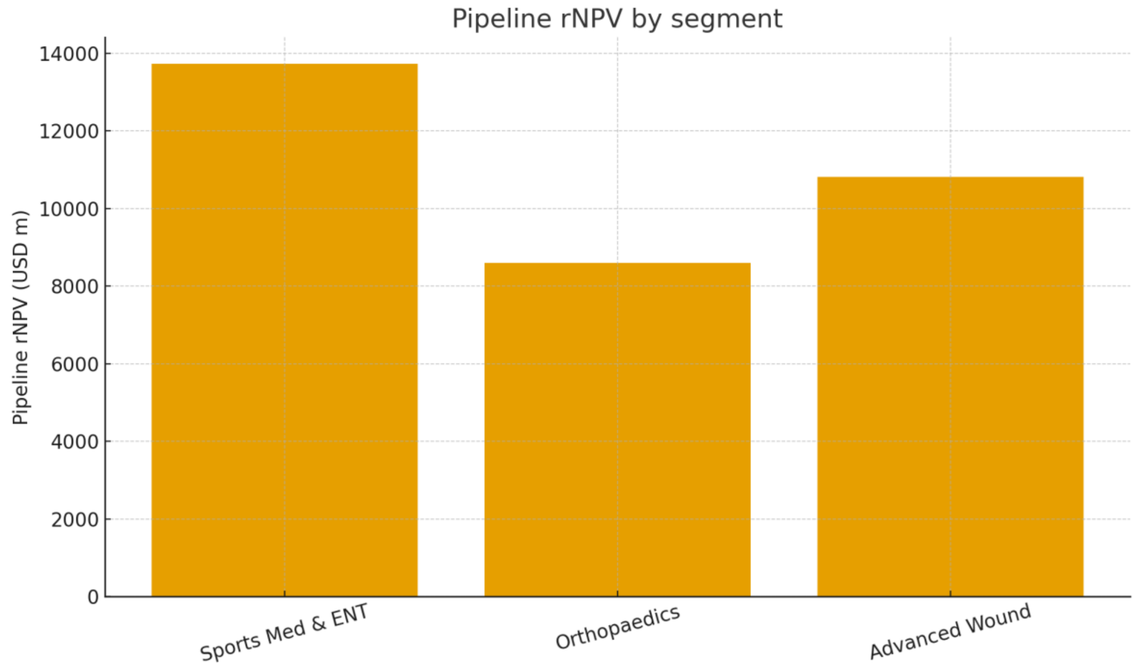

Exhibit 4: Triangulation across approaches (USD per ADR)