Company Name: Smith & Nephew
Company Ticker: SN/ LN
Date: 2018-05-03
Event Description: Q1 2018 Earnings Call

Market Cap: 11395.5810053
Current PX: 1302.5
YTD Change($): 39.5
YTD Change(%): 3.127

Bloomberg Estimates - EPS
Current Quarter:
Current Year: 0.975
Bloomberg Estimates - Sales
Current Quarter:
Current Year: 5067.867

Q1 2018 Earnings Call

Company Participants

- Graham Timothy Baker, CFO & Executive Director
- Olivier Bohuon, CEO & Director
- Philip G. Cowdy, Head of Corporate Affairs & Strategic Planning

Other Participants

- David James Adlington, Head of Medical Technology and Services Equity Research
- Ian Douglas-Pennant, Director and Analyst
- Julien Dormois, Research Analyst
- Kyle William Rose, Senior Analyst
- Michael Klaus Jungling, MD, Head of MedTech & Services and Analyst
- Nyeok Lee, Equity Associate
- Veronika Dubajova, Equity Analyst
- Yi-Dan Wang, Research Analyst

Presentation

Operator

Good day. Welcome to the Smith & Nephew 2018 First Quarter Trading Report Conference Call. Today's conference is being recorded.

At this time, I would like to turn the conference over to Olivier Bohuon. Please go ahead, sir.

Olivier Bohuon, CEO & Director

Thank you. Good morning, ladies and gentlemen. Welcome to our First Quarter results presentation. I'm here with Graham Baker, our CFO; and Phil Cowdy, Head of Corporate Affairs.

As usual, I will start by covering the highlights of the quarter and give you an update by business area. I will then hand over to Graham, who will talk to you through our updated guidance. I will conclude with some closing remarks. And as usual, we will take your questions at the end.

The Q1 slides. So this slide captures our underlying growth, on the left-hand side, geographically; on the right-hand side, by product franchise. We delivered $1.2 billion in revenue this quarter, representing a flat underlying growth. As a reminder, this is not adjusted for sales days. Q1 2018 had 1 fewer day than Q1 2017. This typically impacts our Surgical Businesses more than our Advanced Wound Management businesses and the Established Markets more than the Emerging Markets.

Revenue in the Established Markets declined by 2%. We have seen softness in some of our markets. What do we attribute this to? We believe it's a combination of increased seasonality in the U.S. resulting from the rise in high deductible health plans, budget constraints in Europe impacting elective surgeries and anecdotal feedback on heavy flu season. In addition, the recent trends in AET and Advanced Wound Care continued, as expected.

Bloomberg Transcript

Our Emerging Markets business continued its good momentum with revenue growth of 9%. China, our largest emerging market country, continues to drive this performance with double-digit growth.

I will now turn to each business area in more details. We had a good quarter in Sports Medicine Joint Repair growing at 6%. This include the strong growth in shoulder, where the REGENETEN Bioinductive Implant acquired with Rotation Medical is contributing to strong growth.

Enabling Technologies declined by 5% due to the competitive pressure in both mechanical resection and the legacy RF technology, which we have highlighted before. In addition, it was a softer quarter for our capital portfolio, reflecting seasonality. We expect the growth to improve through the year.

Our Trauma & Extremities business declined by 2%. We faced a stronger comparator this quarter as we annualized the launch of our INTERTAN evidence campaign. The trends in external fixation remain weak, with an additional impact from the lower level of elective procedures. Again, we expect growth to improve in the second half as we roll out our novel EVOS SMALL plating system.

In Other Surgical Businesses, we grew 9%. This includes another solid quarter in ENT and continued good growth in robotics.

Now turning on to Reconstruction. Globally, our recon implant revenue slowed down sequentially, in line with the slowdown in the market. At plus 2% growth, Knee continued to outperform the market, with strong growth coming from the Emerging Markets. We see continued good growth from JOURNEY II, our LEGION Revision portfolio and ANTHEM, our Emerging Markets Knee system.

Global Hips declined by 2%, slightly behind the market growth rate, in line with our performance in 2017. Declines in older hip systems was only partially offset by good performance from our recent product launches in revision hip and growth also from our POLARSTEM Cementless Hip.

AAOS was an important event for our business in Q1. The conference took place in New Orleans in March. And I would like to summarize the event for those of you who were not able to attend.

Robotics and knees were in focus as we moved into full commercial launch of JOURNEY II XR with NAVIO-supported robotical system. The Bi-Cruciate Retaining Knee design enables the surgeon to preserve more of the patient's soft tissue. Robotics assistance facilitates accurate positioning and consistent tissue balancing every time.

At our investor and analyst event, one of our customers, (Dr. Xiao), explained how the NAVIO surgical system fits into his practice. He demonstrated the versatility of the platform. It allows him to use the same tool and the same work flow across all current and future indication. With the launch of JOURNEY II XR and NAVIO, we have seen continued strong surgeon interest. And the number of surgeons trained on NAVIO in Q1 was up over 30% sequentially. At the meeting, we also highlighted a high number of other products that are listed on the slide.

So now, let's turn back to our franchise performance. Advanced Wound Care was flat. Good growth in the U.S. was offset by ongoing challenges in the U.K. As previously announced, we are adapting our business in response to this and expect a gradual improvement over coming quarters.

Advanced Wound Bioactives revenue declined by 12%. Increased seasonality and distributor buying patterns partially explained the decline. In addition, performance from OASIS remained significantly below last year due to the reimbursement headwinds we have previously talked about. We now expect Advanced Wound Bioactives to decline mid-single-digit for the full year.

Advanced Wound Devices grew 2%. This is below our recent trend for a number of reasons. Growth in end-customer demand for PICO remain robust. We expect very strong growth in this franchise for the full year, with a significant improvement from Q2 onwards. During the quarter, we launched our next-generation PICO 7 in Europe. PICO 7 includes an industry-first dressing-full indicator amongst other enhancements.

And I would now hand over to Graham for comments on guidance.

Graham Timothy Baker, CFO & Executive Director

Thanks, Olivier. Good morning, everyone. Based on the First Quarter performance, we are more cautious on our outlook. And we have updated our guidance for 2018. We now expect underlying sales growth in the 2% to 3% range, mainly as a result of the soft Q1 and a more challenging outlook for AWB. Our updated guidance assumes a more normal market growth for elective procedures for the remainder of the year. And on a more technical level, we will have 2 extra selling days. And we expect the increased seasonality in the U.S. to result in a stronger Q4.

Based on our new revenue guidance, we now expect trading profit margins at or above prior year levels. Excluding foreign exchange, the difference between the midpoint of our new and previous guidance mathematically translates into a difference of around 2% to 3% at the EPSA level.

We expect sales growth to be stronger in the second half from the first half of the year. The phasing of the trading profit margin is expected to track this, with margin lower in the first half of 2018 compared to the first half of 2017. Based on the exchange rates prevailing on the 30th of April, foreign exchange, together with the acquisition of Rotation Medical, will add just under 3 points to growth. So we expect reported revenue growth around 5% to 6%.

As usual, our technical guidance slide in the appendix has further detail about restructuring charges, amortization and net financials.

With that, I'll hand back to Olivier.

Olivier Bohuon, CEO & Director

Thank you, Graham. So in summary, it has been a challenging quarter and a disappointing one in financial terms for my last quarter as CEO. However, I see this in the context of the last seven years and not 1 quarter. It has been a privilege to serve and lead Smith & Nephew. And I truly believe it is a much stronger company today than back in 2011.

When I joined Smith & Nephew, it was a collection of business units, each operating in their independent cycles. Today, we are one Smith & Nephew with an integrated business model and strategy. We have focused our commercial teams and centralized our support functions with improved processes and improved efficiencies. We have also globalized the R&D and the manufacturing functions and seeing significant improvements. We have made successful acquisitions and entered new areas such as robotics. And we have prepared Smith & Nephew for the challenges and opportunities ahead.

Over the period, we have delivered good shareholder returns through a combination of dividend growth and share price appreciation. It has always been important for me to leave a stronger company in the end with a new strong CEO. I'm proud to hand the reins of the company to Namal Nawana. And I'm confident that he will lead Smith & Nephew to the next level.

I would like to thank all the people I have worked with at Smith & Nephew and to thank all of you, shareholders, investors and analysts, for the insightful questions over the years. I really enjoyed interacting with you all.

Thank you. And this ends the formal presentation. And we are going now to take the questions. Thank you.

Questions And Answers

Operator

(Operator Instructions) We are taking the next -- the first question from Julien Dormois from Exane.

Julien Dormois, Research Analyst

Hi Good morning, Olivier, Good morning, Graham. Thanks for taking the questions. I have 2 to start with. The first one is on robotics, if we can have any updates on how the placements of NAVIO are doing and whether this has been one of the reason behind the relatively decent Q1 you had on that side compared to the rest of the market? And the second question relates to the seasonality that you are mentioning, can you tell us a bit more on why you think it was in Q1 and why do you expect that to re-rate in Q4? Any particular events that would lead to that effect, please?

Olivier Bohuon, CEO & Director

Julien, thank you for the question. Let's start with the robotics question. Well actually, we are very pleased with our robotics dynamic and I would say more and more happy to see the reaction of our customers. And what I've mentioned about the AAOS in my presentation is very important. So we see not only placement. But we sell also the robot, obviously, I mean, with a great dynamic in the Emerging Markets and now more and more in the Established Markets. So is it responsible for the pretty good dynamic that we have in the Knee business? Not really. I think the Knee is doing pretty well by itself. But we, as I said in Q4, we know that everywhere we have a robot, we have a stronger dynamic with our Knee business for sure. Now regarding the seasonality, well, yes, we have seen more and more, I would say, impact of these high deductibles in Q1, actually. And in Q4. So it's definitely always now a lower and lower Q1 and I would say a stronger and stronger Q4. So this is really happening. And I do not think that this is going to change for a while. So that's why I'm confident to see a better dynamic in the rest of the year. And this has impacted definitely our biologics, stronger than the previous year. And also our Reconstruction business. I think that we can say that the trading is improving slightly and coming back to normal rate in April. So there is no doubt that we have seen a bad market dynamic in Q1. And this is coming back to much more normal now.

Julien Dormois, Research Analyst

Okay. And if I may just add a follow-up. On a personal note and in French, (foreign language) Take care.

Olivier Bohuon, CEO & Director

(foreign language)

Operator

We are now taking a question from Veronika Dubajova from Goldman Sachs.

Veronika Dubajova, Equity Analyst

Good morning, gentlemen. And thank you for taking my questions. I will keep it to 2. And the first one is actually a follow-on to Julien's question on robotics. Stryker very helpfully provided some data points on their installed base on their most recent conference call. And I just was wondering if you can help us put the NAVIO installed base in the context of the MAKO 1, maybe give us an update on where you are with placements. And I suspect I might be too brave asking for the geographic breakdown. But I will, nonetheless. My second question is a bigger-picture question for you, Olivier, now this is your last quarter. And I wondered if you could do a little bit of a postmortem for us. I -- we will sorely miss you. And I wish you all the best in your retirement. But if I look at the business, I think the execution around the organic revenue growth has now consistently fallen short of the ambitions that you had for the business when you joined. And I wonder to what extent you think -- what has not gone right? And what piece of advice would you give to your successor on what needs to change at Smith & Nephew to consistently get the organic growth rate where -- to where your peers are and where you ideally have wanted to see this business?

Olivier Bohuon, CEO & Director

Thank you, Veronika. And thank you for your kind words also. Again, I wish I could have left the company with a better quarter than this one. But I've learned that recent issue should not be judged by the performance in a quarter. I think we have done many, many things. We have modernized a very old organization. We have decided to focus on true innovation and to drive efficiency. All the changes we have done have been very significant, moving from individual silos to a true group, creating a more efficient and more agile organization. I think I've brought in many talented individuals, reinforced the team, improved talent development. We have launched fantastic products like JOURNEY II, PICO, the development of Sports Medicine Joint Repair. I think the Emerging Markets was a very strong choice. And we see now that the payback is really good. It's now about 17% of the group and a very strong growth engine for the product company. So I think all these M&A have been strong also. I mean -- and certainly, the NAVIO deal. And we are going to come back to this question in a few seconds, NAVIO has been also essential for transformation of the company and to drive the Reconstruction business to new ceilings. So yes, I'm happy about what we have done. I think the shareholder return has been good through dividend and through the appreciation of the stock. I mean, nobody can say the contrary. But now you're right, execution has been, I think, my issue during all this period. I do believe most of it is due to a lack of focus on execution. During all the changes we have done, we have built and created disruption in the business. There is no doubt about this. I think that I was underestimating this impact in the past. My recommendation to my successor, I don't think he needs recommendation because he is a very strong and talented individual. But I think it's definitely to focus all the energy of the company on a better execution to generate the growth. And the growth should come. The structure is there. Foundations are built. Everything works well. We have great people. We have super products. So we now have put them on the market. And we have to be successful with these products, which are really disruptive innovation and breakthrough prodcuts. So I'm very confident that the dynamic is there. We have had a bad quarter, fine. But I think it should not hide the 7 good years and the future of this company, which is absolutely superb. So this one, I can tell you on these seven years. On the NAVIO, I can give you a few insights, if you want. I mean, in quarter 1, we have -- in '18, actually, we have trained a lot of surgeons. It was about 200 surgeons in Q1 2018. For the full year of 2017, there was 50% CAGR since the acquisition. We have trained more than 500 surgeons in 2017. We have doubled utilization -- since utilization of TKA. We have definitely -- we are the only manufacturer with bi-cruciate knee now that we have launched and displayed at the AAOS. What Stryker said, obviously, is important also. But I mean, I don't think that we are worse than Stryker in terms of number of doctors that we train. I think we do very well. I do believe we have a very strong tool with NAVIO. Again, it is mobile, it is cheaper, it is efficient, it has a lot of potential development. And when I see the reaction of our customers now with NAVIO, I'm extremely, extremely optimistic about the future of this product and the impact of this robot on the dynamic of our Reconstruction business. So there's no doubt about this.

Veronika Dubajova, Equity Analyst

And Olivier, if I can just follow up quickly. Would you say your installed base is, what, 1/4 of Stryker's? 1/5? 1/10? Just give us some rough -- if I look at 100 robots on the market, what would you be of the market? Would you be 15%? 25%?

Olivier Bohuon, CEO & Director

I'm afraid we don't give any quarterly update. And we don't disclose number of units or sales. This is a commercially sensitive information. You will understand that. And there is no word for it. What I can tell you is that we have a very, very good dynamic. And we have a number of surgeons trained and we have happy customers. That's what I can tell you.

Veronika Dubajova, Equity Analyst

Okay. Thank you very much. And I wish you all the best in your retirement.

Olivier Bohuon, CEO & Director

Thanks, Veronika. Thank you.

Operator

We are now taking a question from Ian Douglas-Pennant from UBS.

Ian Douglas-Pennant, Director and Analyst

Thanks very much for taking my question. It's Ian at UBS. Just quickly, a few questions on your -- a couple of questions on your margin and then one on bioactives. Could you just talk about why you think the pricing pressure has increased so suddenly and why you've kind of been suddenly taken by surprise? It feels like the explanation you've given so far is something that is a trend that's been in place for a few years. I'm just wondering why this come as a surprise. On the margins --on the guidance, sorry, if you think about your margins, just at or above last year margins. And the width of that, is that a similar band to what we had before, i.e., 40 basis points. So you're effectively guiding for 22% to 22.4%? And could you also give us an idea of the scale of the margin skew that you're anticipating H1 to H2 given the commentary that you made in the release?

Olivier Bohuon, CEO & Director

Okay. Thank you, Ian. I will transfer the question to our CFO, Graham Baker.

Graham Timothy Baker, CFO & Executive Director

Thanks, Olivier. And thanks, Ian, for the question. Actually, it's not pricing that's the main driver of this. We haven't seen any significant changes in pricing in the First Quarter. Our shortfall has principally been driven by lower volumes and lower procedure levels, as Olivier had indicated. And in terms of the margin pressure in the first half of the year, that's, therefore, driven by, principally, at the gross margin level, by volumes -- lower volumes absorbing the overhead. So under-absorption there. It's leverage -- further down the P&L leverage, slow sales growth bringing less leverage on the fixed cost base. And it's foreign exchange movements that are pushing us backwards in the first half of the year. Exactly how far that will be, I'm not going to put a number out there immediately. But we're talking about it because it does register. And therefore, in terms of getting to a place where, for the full year, I'm confident we will be at or above last year's margins. We will see a significant improvement in margin in the second half. And that, of course, is not an unusual feature of our business. So most of what we've seen is sort of an emphasized version of what we've seen in previous years. I think the only thing that's outside that is that we have seen more pricing around SANTYL. We have taken price there. But we have seen a bigger impact on volumes as a result of taking price.

Olivier Bohuon, CEO & Director

Yes, let me add a few things on Graham's comments on pricing, just to give you a flavor. I mean, the group pricing pressure is very consistent with what we have seen in the past, which is between 1% and 1.5% price erosion. The most significant price pressure exists in recon and in wound management, there's no doubt. The U.S. recon market pricing was consistent with previous quarters. So it's more a volume issue at minus 2%, minus 3%.. And this is what we budget for the pricing pressure. The Sports Medicine is interesting because it's a different type of animal here. It's very competitive with several leading players. The like-for-like price is less relevant due to the high level of the new product introductions. So it's more difficult to explain. And in the wound, well, there's no doubt we continue -- I mean, Graham was mentioning the biologics. But we continue to see modest price reduction across Advanced Wound Care and increasing pricing pressure in non-differentiated wound care products. And we know that, with, in the U.K., as a good example, with a number of small good-enough players. So this is basically what I can tell you. So there is no real change. And I think that this will remain as it is.

Ian Douglas-Pennant, Director and Analyst

And sorry, the last one, just on the width of the implied guidance that you're saying. Is it fair to assume the guidance is implicitly 22% to 22.4%?

Graham Timothy Baker, CFO & Executive Director

It will be at or above last year's margin levels, Ian. Obviously, there are a number of factors and variables in that. But I'm confident that we will be in that place. But exactly how wide the margin band is, at the top end of our new sales range, I think we can make good progress. At the lower end of our sales range, although I think our APEX program is going to contribute positively, we're going to probably be more at the flat end this year.

Ian Douglas-Pennant, Director and Analyst

Great. Perfect. And thanks, Olivier, for the last seven years.

Olivier Bohuon, CEO & Director

Thank you very much, Ian.

Operator

We are now taking a question from Michael Jungling from Morgan Stanley.

Michael Klaus Jungling, MD, Head of MedTech & Services and Analyst

Good morning, everyone, And I have 3 questions, please. Firstly, on the revised EBITDA margin guidance. Why does 1percentage point of slowdown in organic growth wipe out 30 to 70 basis points of margin? If I look at the incremental change in sales, what you're telling us about the incremental change in EBITA is huge. And I don't really understand the math behind it. Question number two is on procedure volumes. Can you talk about the weakness that you've mentioned in the commentary on developed markets between U.S., Europe and Japan? Then the last question I have is a high-level question for Olivier. And that is after seven years, do you regret holding on to your orthopedics business rather than perhaps selling it and investing the proceeds into perhaps chronic care, where you perhaps have a better market share position today? That's all.

Olivier Bohuon, CEO & Director

Thank you, Michael. Interesting questions. Let me start with the seven years. And then I will talk about the procedure volumes. And I will leave the floor to Graham for the revised EBITA margin. On the -- it's a great question, actually. And you know that we have been thinking about this for years and years and years. And if I have no regret, is to have kept this orthopedic business, number one; and number two, to have been able, with being the #4 player, to outperform the market in the Knee business for quarters and quarters and to really come back at market almost in the Hip business with the recent launch of POLARSTEM and the revision system. So -- and that makes me think that it is not, again. And I've said that for years, it is not -- it's important to be big. It's important to be innovative. It is important to have a sufficient critical mass, obviously. But then when you have it. And we believe we have it with 12 -- with 10%, 11% market share, we believe that the growth we have is absolutely linked to our innovation. And we are happy with these products. We are happy with this range. Second, it is also something, I don't regret it for a second reason, this has been the driver of the growth of the Emerging Markets, which also is important to keep in mind. And it will be again for years and years. And don't forget, we have launched the ANTHEM revision system -- knee system in the Emerging Markets. And this is a big driver of the growth for the future of this company. So yes, I'm happy to have kept this business, absolutely happy also to see the dynamic of outperforming the market in Knee, which is a proof that we were right years ago. And we're still right in keeping that. In terms of the procedures or volumes. So what I said to you -- we have a few things here. It's again mainly in the Established Markets, mainly in the U.S. and in the U.K. Again, in the U.S., it's mainly the high deductible, which is responsible for this. And we will see definitely in Q4 a strong recovery of the market growth. We have seen in the past markets like these at minus 1%, minus 2%, 0%. So it's not quarter to quarters. So I mean, I will not extend or give a trend based on one point. I mean, there's no way. So I think it's important to consider that it will not remain as it is. It will come back to normal. The second thing, which I think is important, we have anecdotal reflections on flu, on the fact that they closed many centers during the flu season. We have heard also. And there's no doubt you have heard that NHS has decreased the number of procedures. It does impact Sports Medicine big time. But also Reconstruction, there's no doubt about it. So yes, there's a number of volume which went down in a number of countries, U.S. mainly. And I would say U.K. as the second one. EBITDA?

Graham Timothy Baker, CFO & Executive Director

On the margin guidance, Michael, I think in some ways, similar question to Ian's, clearly, I think we were clear when we put the original guidance out that the top end margin progression obviously depends on a number of factors. But one -- amongst those is leverage from the top line. Having moved our guidance range down, the top end of the new guidance range is kind of like the bottom end of that previous guidance on sales. And so as I mentioned to Ian, I think that we can make good margin progression at that end of the sales guidance range. At the lower end of the sales guidance range, those leverage effects are cutting in. We are offsetting those with our usual work and, on top of that, with benefits coming through stronger in the second half on our APEX program. But that probably means, with that modest level of sales growth, margin progression is going to be constrained.

Michael Klaus Jungling, MD, Head of MedTech & Services and Analyst

So Graham, is it then mathematically correct, if you lose 1 point of sales, I mean, let's say, call it $47 million, $48 million. And if it wipes out the entire margin improvement, that means the contribution margin on those sales is around 50%? Is it really that high the leverage for this year that you've missed out on, 50% contraction margin?

Graham Timothy Baker, CFO & Executive Director

Michael, you're doing oversimplistic mathematics there, really. I mean, the reality is that the range reflects the fact that there are a number of variables that impact. And it isn't -- although the midpoint reduction corresponds to that mathematics, the reality is that there was always a range of outcomes in the previous guidance and there's a range of outcomes in the current guidance. And exactly what happens on the margin has a corresponding range of outcomes that if we hit the top end of the new guidance, we won't see all of the margin progression eliminated in the way that your formulation presupposes. At the bottom end of the guidance range, then that would be the case.

Operator

We are now moving to David Adlington from JPMorgan.

David James Adlington, Head of Medical Technology and Services Equity Research

I just wanted to add my best for you for the future as well, Olivier. Just in terms of bioactives, given you then gave guidance in February, I just wondered what visibility you had on bioactives at that point. And it does sound like you got worse since February. So was wondering, is there anything in your reporting systems that you think needs to be looked at? Secondly, just wondered if you could quantify any impact from destocking?

Olivier Bohuon, CEO & Director

Okay. Thank you. Well on the bioactives, I think that -- I mean, they declined 12% on a comparator from minus 8% in Q1 last year. I said I think clearly that the U.S. elective procedures seasonality is becoming more and more pronounced every year. And this is due to the increasing deductible health plan leading mechanically to lower procedure volume in Q1 and higher volumes in Q4. That's exactly the same dynamic than the other one. Additionally, more health care costs are being transferred to patients, co-insurance, higher co-pays. And this definitely limits the utilization. If you think again about OASIS, which is not the biggest product, obviously. But I mean, the decline has been continued, impacted again by bad reimbursement structure for us. OASIS is definitely an attractive product for the future in a more value-based payment system because of its evidence and cost effectiveness. So the wound biologic quarterly growth rate is volatile, as you know. This is due to distributor buying patterns and partly around year-end and the stocking of year-end because of the price increase. The mechanical is pretty clear. And we know it very well. So we expect to see a stronger H2 like last year. And at the end, mechanical is that we expect a mid-single-digit decline in advanced wound biologics for the full year. So this is basically what is happening. So there is no -- there is nothing hidden here. It is just a mechanic of reimbursement. So we expect to see a much better dynamic in the product. But again, having seen a minus 12% in this, I mean, the full year will not be in high single digit or flattish, will be a slight decrease, we believe, at this stage. So Graham, you want to add something?

Graham Timothy Baker, CFO & Executive Director

Yes, David, if I can just take up the point in terms of reporting. January is always a very soft month. On bioactives, we saw no change there. But that continued through February and March. And that was the change that we saw. We -- all through last year, we saw a slow first half and improved second half. We expect that pattern to continue, as Olivier highlighted. But having seen such a soft First Quarter and a slower recovery through that First Quarter and even into April, that's what's led to change our guidance.

Olivier Bohuon, CEO & Director

And sorry, David, your second question was?

David James Adlington, Head of Medical Technology and Services Equity Research

Yes, I just wondered if you could quantify the impact of any destocking?

Olivier Bohuon, CEO & Director

Oh, yes, well, no, no.

Graham Timothy Baker, CFO & Executive Director

I mean, as Olivier highlighted, there is always a buy-in by the large distributors ahead of the price increase. That was there. But it was not markedly dissimilar from what we've seen in the prior years. That's not a main driver for what's going on in the First Quarter this year or indeed year-over-year growth in the prior year.

David James Adlington, Head of Medical Technology and Services Equity Research

Understood. And just a couple of follow-ups. I mean, are you seeing that because of co-pays, patients are actually filling prescriptions? Or are you just seeing -- is it just procedure volumes that are down? Or are you seeing procedure volumes down and then also less patients who are getting procedures are actually using SANTYL? Then also if you could quantify any price increase you took as well.

Graham Timothy Baker, CFO & Executive Director

Yes, on SANTYL, the fill rate is being impacted, yes, that is down. And that does change seasonally through the year as people start the year with all the burden on them. And it tends to change towards the end of the year when they've exhausted their deductible. And the co-pays, therefore, go away. I'm not going to put an exact number on any of those because it does fluctuate. And I wouldn't want to set up an expectation that it will always be exactly the same. We have seen a change now this year versus prior years. But it's not a huge one.

Olivier Bohuon, CEO & Director

Yes. Well in terms of price, I mean, every year, we are very careful in evaluation of the price. There's no doubt. And you can expect, because I know what you're going to ask again, to periodically implement inflation-linked price increases. So that's what you have to keep in mind.

Operator

Our next question is from Yi-Dan Wang from Deutsche Bank.

Yi-Dan Wang, Research Analyst

Thank you very much. I have 2 questions. One clarification question just relating to the comment earlier that -- can I just confirm that you're expecting H1 '18 margins to contract but just don't know what the quantum would be at this stage? Then the second question would be for Olivier. Clearly, all the best for your retirement. You're going to have so much time on your hands. You're going to be wondering what you're going to do with them. And...

Olivier Bohuon, CEO & Director

I have some ideas. I have some ideas, Yi-Dan.

Yi-Dan Wang, Research Analyst

Well do let us know how you end up -- what you end up doing so we can take some next.

Olivier Bohuon, CEO & Director

I will, I will.

Yi-Dan Wang, Research Analyst

And so 2 questions for you, Olivier. So I suppose one is on the current management team and about how happy you are with them and how happy the new CEO would be with them. How strong that team is currently? We have seen some turnover in the team over the last year or so, I think. If you could comment on that. Essentially, just how stable that platform is for the new CEO? Then secondly, on the wound care business, do you regret keeping that one? Do you think there's a better owner for that business?

Olivier Bohuon, CEO & Director

My dear Yi-Dan, I'm very happy to answer your questions. It has been a while since I have been able to talk to you about this. So you want to start by wound care or by the management?

Yi-Dan Wang, Research Analyst

I think management first, please. Thank you.

Olivier Bohuon, CEO & Director

Okay, management first. So in every single organization, you have changes in management. This is due to many reasons, retirement, it has been the case for some of our executives; opportunities outside. And this is also happening; and sometimes conflict or whatever. So I mean, there's nothing special at Smith & Nephew. We have had a normal turnover of the top management. Now I have a team that I believe is a very capable team. We have 2 good business guys. We have a fantastic CFO. We have a number of corporate development we have Phil Cowdy. There is a real good team here. So now your question is, what is Namal thinking about the team? How can I know? I mean, I don't know. I mean, he will make his own judgment. My view is that we have a great team. Now Namal will have to judge himself what he wants to do and if the people we have in the corporation corresponds to what he wants to do. I think that we are all here able to implement a better execution. There's no doubt about this. And so it will be up to Namal and up to you to ask the question to Namal when he will present at the Q2 results in July. In terms of wound care, I mean, if I'm listening to you guys, I mean, Michael asking me if I should have kept orthopedic, you telling me I should have kept the wound, I mean, there will be no more Smith & Nephew today. So yes, I'm happy to have kept the Advanced Wound Management. I think we are, there's no doubt, the most strongest company in Advanced Wound Management. Why? Because, again, we have the 3 legs of this business: the wound care, the wound devices, the wound biologics. There is absolutely no doubt for me that we are super well-equipped to succeed in the future. We are addressing most severe pathologies with all the range of products that we have, whether it is pressure ulcer, leg ulcers, severe wounds. And I do believe also that we are, there's no doubt, the leaders of the portable negative pressure. The launch of PICO 7 is telling me that we are going to have a fantastic future with these products. So yes, we have to adapt the model in a few countries because it's a low-cost model, I was saying before. So we have in some places to put some of our cheaper product, not differentiated for tenders when we sell our IP of products at a good price for the most sophisticated customers. So yes, I think it's great. I think I don't regret to have kept and I don't regret where it's now. It's a good business. And I believe that it will continue the strong growth in the future.

Yi-Dan Wang, Research Analyst

And do you think...

Graham Timothy Baker, CFO & Executive Director

Then if I take up the question on the backwards movement on the H1 margins. Obviously, we have a sense of a dimension there. But as I mentioned, the 3 key drivers of that are volumes, sales leverage and FX. And not all of that is entirely known. So I mean, dimensionally, I'm talking about a few tens of basis points. But exactly what it comes out there does, to some extent, depend on sales progress and the wider market.

Yi-Dan Wang, Research Analyst

Okay. So in terms of FX, on current rates, what would you say Q2 FX would be and also for the year as well -- or actually, for the year, you've given. But just for Q2?

Graham Timothy Baker, CFO & Executive Director

I mean, we're not specifying at that level of granularity, Yi-Dan. I'm not giving the FX predictions. And I'm not saying exactly how that plays through the margins on a quarterly basis.

Operator

We are now taking a question from Kyle Rose from Canaccord Genuity.

Kyle William Rose, Senior Analyst

So I wanted to touch a bit, go back to recon a bit here, specifically on the Hips side. Hips were a bit soft through all of your expectations. But then -- and I understand the moving pieces as far as in the emerging -- in the developed markets with flu, 1 less selling day and some of the increased seasonality. But I'm just -- Hips did come in a bit light even relative to, I guess, the broader peer group when I think of the other major players in the U.S. Just trying to see, is there anything specific when you think about the First Quarter and what happened in the First Quarter relative to how you were thinking about the quarter setting up back at the full year results call in February? And anything from a competitive perspective that would have been different for Smith & Nephew relative to the broader industry?

Olivier Bohuon, CEO & Director

Thank you, Kyle. I know there is absolutely nothing special here. I think that as we discussed in Q1-- sorry, in Q4, there is absolutely no -- nothing happening here. We have a full range of products now. We have the complete range and we're missing this. So no, I think with the strong competitor last year, that there's absolutely nothing happening, to my knowledge, in the market which is justifying a potential slowdown. At the contrary, I think that the idea of growing at market is still our ambition. And we don't see why this could not happen. Phil, you want to add anything?

Philip G. Cowdy, Head of Corporate Affairs & Strategic Planning

No, no.

Kyle William Rose, Senior Analyst

Okay. Then on the Arthroscopic Enabling and the overall portfolio, I mean, where do you think your outlook portfolio perspective? And I guess when is it reasonable to expect this business to stabilize and more so return to growth? Then the second question is just remind us what your overall growth assumptions are exiting the Q1 for the respective recon market?

Olivier Bohuon, CEO & Director

Sorry, the second question on Q1, what did you want, I'm sorry? On the recon market, I didn't get it.

Kyle William Rose, Senior Analyst

How to view the growth of the recon market post the slower start to the year.

Olivier Bohuon, CEO & Director

Okay. Well look, to start with this one, in recon market, the Q1 market, we believe, is 0% market growth. It's where we believe it is. It's negative in the U.S. We believe it's a minus 1% market. But it's a 0 as a whole according to us. In terms of Enabling Technologies, well, here, you have 2 different issues. The first one is the mechanical resection, which is for now a while decreasing significantly. Actually, we don't see why this will change. The second part is the COBLATION RF, which is facing a low-cost competition. And this is also nothing new. Actually, we're expecting this. And what we have said in Q4. And I reinforce the message now, is that we are going back on track and back on growth slowly. I mean, the ramp-up is there. And you will see in the future that this is happening, thanks to the launch of WEREWOLF, which is doing very well, as well of our LENS system, which is also doing very well. So I think it's, for us, something which is absolutely not a surprise. I was not expecting to see in the First Quarter a recovery of the Enabling Technologies. I've said. And I say it again, that this will be a slow ramp-up. But we are going to be back on growth in this business. Okay. So we take one more question...

Kyle William Rose, Senior Analyst

Thank you for taking the questions. And best of luck.

Olivier Bohuon, CEO & Director

Thank you, Kyle. Thank a lot.

Operator

The final question comes from Kit Lee from Jefferies.

Nyeok Lee, Equity Associate

Thank you. I have 2 on wound, please. So firstly, just on wound care. Can you just give us the growth number in the U.S., please? And for your wound care business in U.K. and Germany, when do you expect the reorganization or restructuring to stabilize or to complete? Then secondly, on wound devices, can you just give us more color on the softness? Did you see any competitive pressure? And what gives you the confidence to grow double-digit for the full year because the comp doesn't actually get easier through the rest of the year?

Olivier Bohuon, CEO & Director

Okay. So thank you for the questions. So let's start with the Advanced Wound Devices, why it's slowing and why can I believe there is double-digit growth in full year. Well first of all, Advanced Wound Devices only was 2% up in Q1 versus 14% in Q4. We faced a tougher competitor this quarter. I mean, Q1 '17 was 16% up versus Q4, 16% -- sorry, versus 2% Q4 '16. So the growth in PICO was slower. Impacted by softer markets were elective procedures, I mean, surgical site infection indication is very important for PICO, as you know. And the fact that we have less and less elective procedure has impacted PICO negatively. So adjusting for this growth, end-customer demand for PICO remains very strong. So as I said before. So we expect the strong growth in devices for Q2 onwards with, no doubt, a double-digit growth for the full year. So I think it's more an issue of timing rather than anything else. And there is no doubt we have launched, as I said, PICO 7, which is also will be a key growth driver of the business. So I'm very confident, as I said in Q4, to see this double-digit growth in the full year. Regarding the wound care, well, we don't disclose the wound care dynamic in the U.S. What I can tell you is that it's a strong growth. And we are very happy with what is happening in wound care in the U.S. Now in the U.K. and in Germany, yes, we have put together the organization in place. We have also in the U.K. built a tender excellence team dealing with the tender issues that we have had, which is low-cost products facing our high-cost products. So it is true that we expect this to be better. I mean, the revenue was flat in Q1. We expect the growth to improve gradually through the year. So the market trends remain unchanged compared to H2 2017. And I think that's what I can tell you.

Nyeok Lee, Equity Associate

Okay. And all the best to you, Olivier.

Olivier Bohuon, CEO & Director

Thanks a lot, Kit. Thank you.

Okay. So this will end this presentation. Again, let me thank you on your support for during these last seven years. And again, I'm sure we are leaving a stronger Smith & Nephew. And I don't want you to focus on the weak quarter, financial weak quarter, because we did some very good things aside. And this doesn't mean that the year would be a bad year. Thank you very much for your attention. And all the best to you all.

Operator

This will conclude today's conference call. Thank you for your participation, ladies and gentlemen, you may now disconnect.

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