

SMITH & NEPHEW PLC
Form 6-K
February 04, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 6-K

Report of Foreign Private Issuer

Pursuant to Rule 13a-16 or 15d-16 of the

Securities Exchange Act of 1934

February 4, 2016

Commission File Number 001-14978

SMITH & NEPHEW plc

(Registrant's name)

15 Adam Street

London, England WC2N 6LA

(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.

Form 20-F Form 40-F

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1).

Yes No

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7).

Yes No

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing information to the Commission pursuant to Rule 12g3-2 (b) under the Securities Exchange Act of 1934.

Yes No

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If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b) : 82-
n/a.

Smith & Nephew plc

INDEX TO EXHIBITS

Item 1. Press release entitled **Smith & Nephew Fourth Quarter Trading and Full Year 2015 Results** , dated February 4, 2016.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Smith & Nephew plc
(Registrant)

Date: February 4, 2016

By: /s/ Susan Swabey
Susan Swabey
Company Secretary

Item 1

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 London WC2N 6LA

Smith & Nephew Fourth Quarter Trading and Full Year 2015 Results

Delivering stronger underlying revenue growth, trading profit margin and adjusted earnings

4 February 2016

Smith & Nephew plc (LSE:SN, NYSE:SNN) results for fourth quarter and full year to 31 December 2015:

	31 Dec 2015 \$m	Trading 31 Dec 2014 \$m	Underlying growth %	31 Dec 2015 \$m	Reported 31 Dec 2014 \$m	Reported growth %
Fourth Quarter Resultsⁱ						
Revenue	1,257	1,249	5	1,257	1,249	1
Full Year Resultsⁱ						
Revenue	4,634	4,617	4	4,634	4,617	0
Trading/operating profit	1,099	1,055		628	749	
Trading/operating profit margin	23.7%	22.9%		13.6%	16.2%	
EPSA/ EPS (cents)	85.1	83.2		45.9	56.1	

Fourth Quarter Highlightsⁱ

Revenue up 5% underlying. 1% reported growth after -6% FX and 2% acquisition impacts

Established Markets revenue up 6%, our best quarterly performance since 2012

Emerging Markets revenue growth of 2% with strong growth in most markets offset by China

Sports Medicine Joint Repair revenue up 9%, driven by US and ArthroCare benefits

Another strong performance in Knee Implants with revenue up 6%

Advanced Wound Management businesses deliver 8% revenue growth, led by US performance

2015 Full Year Highlightsⁱ

Full year underlying revenue growth of 4%, twice that achieved in 2014. Reported growth flat after -8% FX and 4% acquisition impacts

Trading profit margin up 80bps at 23.7%, reflecting Group Optimisation and ArthroCare synergies

\$203m accounting charge (before future insurance recovery) taken for metal-on-metal claims

Proposed full year dividend distribution of 30.8¢ per share, up 4% year-on-year

Olivier Bohuon, Chief Executive Officer of Smith & Nephew, said:

The Group finished 2015 strongly, led by an excellent quarter in the US across Sports Medicine, Knee Implants and our Advanced Wound Management businesses. At the same time, we successfully continued to grow our businesses in Europe and the Emerging Markets.

For the full year we delivered higher underlying revenue growth, trading profit margin and adjusted earnings year-on-year. Our strategy is producing an improved performance through focused innovation, better commercial execution and greater efficiency.

We expect to deliver continued good underlying revenue growth in 2016 as we benefit from our investments in existing businesses, acquisitions and pioneering technologies.

News

Analyst conference call

An analyst meeting and conference call to discuss Smith & Nephew's results will be held at 9.00am GMT / 4.00am EST today, Thursday 4 February. This can be heard live through the Smith & Nephew website at <http://www.smith-nephew.com/results> and a recording will be available on the site shortly afterwards. For those who wish to dial in to the call, details can be accessed on our website using the same link.

Enquiries

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Notes

- i. Certain items included in 'Trading results', such as trading profit, trading profit margin, trading cash flow, EPSA and underlying growth are non-IFRS financial measures. The non-IFRS financial measures reported in this announcement are explained in Note 8 and are reconciled to the most directly comparable financial measure prepared in accordance with IFRS.
- ii. All numbers given are for the quarter or full year ended 31 December 2015 unless stated otherwise.
- iii. Unless otherwise specified as 'reported' all revenue growths throughout this document are underlying increases/decreases after adjusting for the effects of currency translation and including the comparative impact of acquisitions and excluding disposals. All percentages compare to the equivalent 2014 period.
- iv. Underlying revenue growth is used to compare the revenue in a given period to the comparative period on a like-for-like basis. Underlying revenue growth reconciles to reported revenue growth, the most directly comparable financial measure calculated in accordance with IFRS, by making adjustments for the effect of acquisitions and disposals and the impact of movements in exchange rates (currency impact), as described below.
- v. The effect of acquisitions and disposals measures the impact on revenue from newly acquired material business combinations and recent material business disposals. This is calculated by comparing the current year, constant currency actual revenue (which include acquisitions and exclude disposals from the relevant date of completion) with prior year, constant currency actual revenue, adjusted to include the results of

acquisitions and exclude disposals for the commensurate period in the prior year.

- vi. Currency impact measures the increase/decrease in revenue resulting from currency movements on non-US Dollar sales and is measured as the difference between: 1) the increase/decrease in current year revenue translated into US Dollars at the current year average rate and the prior year revenue translated at the prior year average rate; and 2) the increase/decrease being measured by translating current and prior year revenue into US Dollars using a constant fixed rate.
- vii. References to market growth rates are estimates generated by Smith & Nephew based on a variety of sources.
- viii. Q4 2015 comprised 64 trading days (2014: 63 trading days). The full year of 2015 comprised 251 trading days (2014: 251 trading days).

Smith & Nephew Fourth Quarter Trading and Full Year 2015 Results

For the full year we delivered higher underlying revenue growth, trading profit margin and adjusted earnings year-on-year. Where we have invested to improve our existing businesses, we began to reap the rewards in 2015 as we continued to deliver against our five strategic priorities.

A stronger commercial performance

Geographically, we drove growth in all of our regions in 2015. In our **Established Markets** we delivered 5% growth in the United States, our largest market, a significant improvement on the previous year. We successfully stabilised our European business which delivered a better outturn year-on-year, and our Australia, New Zealand and Japan region delivered good growth, led by the Advanced Wound Management businesses.

In the **Emerging Markets** we delivered 11% revenue growth in 2015 despite the slow-down in China. Whilst we expect growth in China to remain below previous levels in the near-term, it remains a very attractive market and we are committed to building our business here. We continued to successfully deliver strong revenue growth across the rest of the Emerging Markets.

Global franchise highlights in 2015 included the performance of Sports Medicine, which was strengthened by the ArthroCare acquisition. The Advanced Wound Management businesses delivered a significantly better outcome driven by new management initiatives. Orthopaedic Reconstruction grew ahead of the market driven by our Knee Implant franchise.

We are further strengthening our commercial platform by aligning under a newly created role of Chief Commercial Officer tasked with driving commercial excellence across the organisation globally. We are also bringing all of our US Orthopaedic Reconstruction, Sports Medicine, Trauma and Advanced Wound Management franchises under one leader, completing the roll-out of our single managing director model globally.

Focused on innovation

We continue to **innovate for value**. Through our Research and Development (R&D) strategy we deliver pioneering products and services, and drive innovation across the markets we serve. In 2015 we reiterated our commitment to innovation by announcing a single global R&D organisation to be led by a new President of Global R&D.

We launched many new products in 2015 and made good progress with our innovative business models, including Syncera², our value solution for orthopaedic reconstruction. We have a strong new product line-up for 2016 as the result of our internal programmes and recent acquisitions. With increased focus on R&D we will apply more resource to the development of disruptive products and services that increasingly define Smith & Nephew and will help drive our success in the future.

Driving increased efficiency & operational excellence

We continue to **simplify and improve our operating model**, becoming more efficient in 2015. Our programme to realise at least \$120 million of annual savings is progressing ahead of plan, and had delivered \$100 million of annualised benefits at year end. The suspension of the Medical Device Excise Tax will present us with opportunities to accelerate investment in our quality and regulatory systems and health economics teams, particularly in support of the US market.

Successful acquisition track record

Smith & Nephew has established a successful **acquisition** track record in recent years. With Healthpoint Biotherapeutics, acquired in 2012, our third year return on capital has exceeded our weighted average cost of capital, despite certain issues we had to address with regard to facilities acquired. ArthroCare, acquired in 2014, is performing in-line with our expectations and we expect the synergies to add \$85 million to annual trading profit by 2017.

In 2015 we continued to invest in acquisitions that provide opportunities to supplement our organic growth, strengthening our technology and product portfolios and our Emerging Markets business.

The acquisition of Blue Belt Technologies was announced in October 2015 and completed in January 2016, with the early integration progressing to plan. Blue Belt has given us a leading position in the fast growing area of robotics-assisted orthopaedic surgery. Its NAVIO^à surgical system provides robotics-assistance in partial knee replacement surgery through a unique hand-held, bone-shaping device. NAVIO and our own partial knee implant portfolio form a strong combined business from which to accelerate growth in this attractive area of surgery. Additionally, we intend to expand NAVIO into total knee, bi-cruciate retaining knee and revision knee implants, delivering significant further upside.

We also completed the acquisition of the ZUK partial knee system in the US market during the year. This has given us access to many new customers and is highly complementary to Blue Belt.

In the Emerging Markets we enhanced our commercial footprint and product portfolio. In Russia, we acquired a trauma and orthopaedics distribution business that includes mid-tier manufacturing, significantly enhancing our local presence and giving us a platform to take advantage of local market dynamics. In Colombia, one of the largest economies in Latin America, we acquired our distributor for orthopaedic reconstruction, trauma and sports medicine products.

Fourth Quarter 2015 Trading Update

The Group finished 2015 strongly, led by excellent performances in the US across Sports Medicine, Knee Implants and our Advanced Wound Management businesses. At the same time, we successfully continued to grow our businesses in Europe and, despite the significant slow-down in China, the Emerging Markets.

Our Q4 revenue was \$1,257 million (2014: \$1,249 million), an increase of 5% on an underlying basis and 1% on a reported basis. A foreign exchange headwind of -6% was partially offset by acquisitions, which added 2% to the reported growth rate. Q4 2015 comprised 64 trading days, one more than in Q4 2014, which typically increases the underlying revenue growth rate by around 1%.

Fourth Quarter 2015 Franchise Highlights

Sports Medicine Joint Repair had a good finish to the year, especially in the US, with revenue up 9% in the quarter as we benefited from the strength of our combined portfolio following the ArthroCare acquisition, in particular in shoulder repair. In **Arthroscopic Enabling Technologies** we delivered 3% revenue growth, considerably ahead of recent quarters as we delivered strong COBLATION^à sales.

Trauma & Extremities performance was flat, partly reflecting a slow-down in our Chinese business. Our **Other Surgical Businesses** franchise delivered revenue growth of 13%. Ear, Nose & Throat continued to deliver better growth following our actions to improve this business.

In Reconstruction we achieved another quarter of strong growth in **Knee Implants**, growing revenue by 6%, outperforming the market which we estimate grew 3%. Our Q4 performance included growth of 7% in the US, driven by our differentiated VERILAST^à technology and the JOURNEY^à II Total Knee System. **Hip Implants** revenue growth was 1%, in-line with the estimated market growth rate of 1%. Good growth in our core hips was again offset by the declining sales of resurfacing systems.

Advanced Wound Care delivered revenue growth of 4%, consolidating the improvements achieved across the year, particularly better US growth.

Advanced Wound Bioactives revenue growth was 16% as SANTYL^à finished the year strongly. OASIS^à sales continued to be held back by the 2014 change in US reimbursement.

Advanced Wound Devices revenue growth was 14%. PICO^a continued to deliver strong growth as the market increasingly adopts disposable negative pressure devices. We expect the improved outpatient reimbursement for PICO in the US will help us drive continued momentum for this product in 2016.

Fourth Quarter 2015 Consolidated Revenue Analysis

	31 December 2015 \$m	31 December 2014 \$m	Reported growth %	Underlying growth ^a %	Acquisitions /disposals %	Currency impact %
Consolidated revenue	1,257	1,249	1%	5%	2%	
	31 December 2015 \$m	31 December 2014 \$m	Reported growth %	Underlying growth ^a %	Underlying growth ^a %	
				Global	US	OUS ^b
Consolidated revenue by franchise Orthopedics, Spine, Trauma & Other	511	509	0%	5%	8%	
Orthopedics Joint Repair	169	159	6%	9%		
Endoscopic Enabling Technologies	159	169	-6%	3%		
Spine & Extremities	127	129	-2%	0%		
Other Surgical Businesses	56	52	9%	13%		
Construction	411	405	2%	4%	4%	
Orthopedic Implants ^c	248	235	6%	6%		
Spine Implants ^c	163	170	-4%	1%		
Advanced Wound Management	335	335	0%	8%	22%	
Advanced Wound Care	196	210	-7%	4%		
Advanced Wound Bioactives	96	83	16%	16%		
Advanced Wound Devices	43	42	3%	14%		
	1,257	1,249	1%	5%	9%	
	31 December 2015 \$m	31 December 2014 \$m	Reported growth %	Underlying growth ^a %		
Consolidated revenue by geography	626	563	11%	9%		
Established Markets ^d	454	499	-9%	2%		
Emerging Markets	177	187	-6%	2%		
	1,257	1,249	1%	5%		

- a Underlying growth is defined in note iii on page 2
- b Outside United States
- c US knees 7%, OUS knees 4%, US hips 0%, OUS hips 1%
- d Europe, Canada, Japan, Australia and New Zealand

Fourth Quarter 2015 Regional Performance

We delivered 9% revenue growth in the US for the quarter with our Sports Medicine Joint Repair, Knee Implants, and all our Advanced Wound Management franchises performing strongly. Growth across our Other Established Markets was 2%. Revenue growth was also 2% across the Emerging Markets, reflecting weakness in China principally across Sports Medicine, Trauma and Advanced Wound Care. Growth in most other Emerging Markets countries remained strong and, excluding China, we increased revenue by 15% in the quarter.

Legal Settlement and Provision

During the quarter Smith & Nephew settled the majority of US metal-on-metal hip claims, without admitting liability. Insurance receipts to date have covered more than half of the gross settlement, with the net cash cost being \$25 million. These claims principally related to Smith & Nephew's portfolio of modular metal-on-metal hip products (such as the R3 metal liner), which are no longer on the market.

We have taken an accounting charge of \$203 million to cover this net cost and also the present value of the estimated costs to resolve all other known and anticipated claims over the coming years. This amount does not include any possible insurance recovery on these other claims and associated legal fees. The Group carries considerable product liability insurance and we will continue to defend claims vigorously. The estimate is based on assumptions relating to number of claims and outcomes, and is subject to revision as circumstances evolve.

Full Year 2015 Consolidated Trading Analysis

Smith & Nephew results for the full year ended 31 December 2015:

	Trading		Reported	
	Full year 2015 \$m	Full year 2014 \$m	Full year 2015 \$m	Full year 2014 \$m
Results*				
Revenue	4,634	4,617	4,634	4,617
Trading/operating profit	1,099	1,055	628	749
<i>Trading/operating profit margin</i>	<i>23.7%</i>	<i>22.9%</i>	<i>13.6%</i>	<i>16.2%</i>
Net interest charge	(41)	(15)	(38)	(22)
Other finance costs	(13)	(11)	(15)	(11)
Share of losses from associates	(5)	(2)	(16)	(2)
Profit before taxation	1,040	1,027	559	714
Taxation	(279)	(284)	(149)	(213)
<i>Effective tax rate</i>	<i>26.8%</i>	<i>27.7%</i>	<i>26.7%</i>	<i>29.8%</i>
Adjusted attributable/ attributable profit	761	743	410	501
EPSA/ EPS (cents)	85.1	83.2	45.9	56.1

* See note i on page 2

Full Year 2015 Highlights

Group revenue for the full year was \$4,634 million (FY 2014: \$4,617 million), an increase of 4% on an underlying basis and flat on a reported basis. A foreign exchange headwind of -8% was partially offset by acquisitions, which added 4% to the reported growth rate.

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Revenue growth was 5% in the US, 1% across our Other Established Markets and 11% in the Emerging Markets.

Trading profit was \$1,099 million in the full year (2014: \$1,055 million). The trading profit margin was 23.7% (FY 2014: 22.9%), up 80 bps, reflecting the benefits from the Group optimisation programme and synergies from the ArthroCare acquisition.

Reported operating profit of \$628 million (2014: \$749 million) is after integration and acquisition costs, as well as restructuring and rationalisation costs, amortisation and impairment of acquisition intangibles and legal and other items incurred in the full year (see Note 8 to the Financial Statements). Significant items include the \$203 million accounting charge detailed above. The net interest charge and other financing costs for 2015 was \$53 million (2014: \$33 million), reflecting the acquisition of ArthroCare. Profit before tax was \$559 million (2014: \$714 million).

The tax rate for the full year is 26.8% on Trading results (2014: 27.7%), a 90bps reduction year-on-year. We expect the tax rate on Trading results to be 26.5% or slightly lower for 2016, barring any changes to tax legislation.

Adjusted earnings per share was 85.1¢ (170.2¢ per American Depositary Share, ADS) compared to 83.2¢ last year, up 2%. Basic earnings per share was 45.9¢ (91.8¢ per ADS) (FY 2014: 56.1¢) with the difference between adjusted and unadjusted earnings per share reflecting legal settlement and provision, restructuring charges relating to our optimisation programme and amortisation of an impairment of acquisition intangibles (see Note 8 to the Financial Statements).

Trading cash flow was \$936 million in the year. The trading profit to cash conversion ratio was 85% (2014: 74%), a year-on-year improvement in working capital management as the Group returned to recent stronger cash performance levels.

Net debt was \$1,361 million, down from \$1,613 million at the end of 2014. This represents a net debt/EBITDA ratio of 1.0x. The Blue Belt acquisition was completed after the year-end for \$279 million.

Dividend

The Board is pleased to recommend a Final Dividend of 19.0¢ per share (38.0¢ per ADS). This, together with the Interim Dividend of 11.8¢ per share (23.6¢ per ADS), will give a full year distribution of 30.8¢ per share (61.6¢ per ADS), up 4% year-on-year, in-line with our progressive dividend policy and slightly above EPSA growth.

Outlook

In 2016, we expect to deliver continued good underlying revenue growth as we benefit from our investments in existing businesses, acquisitions and pioneering technologies.

We would have expected our trading profit margin to reach or exceed 24% in 2016, including the 60 bps dilution from investing in the Blue Belt Technologies product pipeline. However, our margin will be reduced by a significant -120 bps transactional currency headwind based on current exchange rates, as highlighted in our Q3 results.

Our strategy is producing an improved performance through focused innovation, better commercial execution and greater efficiency.

Forward calendar

The Group will announce its First Quarter Trading Results on 5 May 2016.

About Smith & Nephew

Smith & Nephew is a global medical technology business dedicated to supporting healthcare professionals in their daily efforts to improve the lives of their patients. With leadership positions in Orthopaedic Reconstruction, Advanced Wound Management, Sports Medicine and Trauma & Extremities, Smith & Nephew has over 15,000 employees and a presence in more than 100 countries. Annual sales in 2015 were more than \$4.6 billion. Smith & Nephew is a member of the FTSE100 (LSE:SN, NYSE:SNN).

For more information about Smith & Nephew, please visit our corporate website www.smith-nephew.com, follow @SmithNephewplc on Twitter or visit [SmithNephewplc](https://www.facebook.com/SmithNephewplc) on Facebook.com.

Forward-looking Statements

This document may contain forward-looking statements that may or may not prove accurate. For example, statements regarding expected revenue growth and trading margins, market trends and our product pipeline are forward-looking statements. Phrases such as aim , plan , intend , anticipate , well-placed , believe , estimate , expect , target , consider and similar expressions are generally intended to identify forward-looking statements. Forward-looking statements involve known and unknown risks, uncertainties and other important factors that could cause actual results to differ materially from what is expressed or implied by the statements. For Smith & Nephew, these factors include: economic and financial conditions in the markets we serve, especially those affecting health care providers, payers and customers; price levels for established and innovative medical devices; developments in medical technology; regulatory approvals, reimbursement decisions or other government actions; product defects or recalls or other problems with quality management systems or failure to comply with related regulations; litigation relating to patent or other claims; legal compliance risks and related investigative, remedial or enforcement actions; disruption to our supply chain or operations or those of our suppliers; competition for qualified personnel; strategic actions, including acquisitions and dispositions, our success in performing due diligence, valuing and integrating acquired businesses; disruption that may result from transactions or other changes we make in our business plans or organisation to adapt to market developments; and numerous other matters that affect us or our markets, including those of a political, economic, business, competitive or reputational nature. Please refer to the documents that Smith & Nephew has filed with the U.S. Securities and Exchange Commission under the U.S. Securities Exchange Act of 1934, as amended, including Smith & Nephew's most recent annual report on Form 20-F, for a discussion of certain of these factors. Any forward-looking statement is based on information available to Smith & Nephew as of the date of the statement. All written or oral forward-looking statements attributable to Smith & Nephew are qualified by this caution. Smith & Nephew does not undertake any obligation to update or revise any forward-looking statement to reflect any change in circumstances or in Smith & Nephew's expectations.

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Full Year Consolidated Revenue Analysis

	31 December 2015 \$m	31 December 2014 \$m	Reported growth %	Underlying growth^a %	Acquisitions /disposals %	Currency impact %
Consolidated revenue	4,634	4,617	0%	4%	4%	
				Underlying growth^a %	Underlying growth^a %	
Consolidated revenue by franchise	\$m	\$m	Reported growth %	Global	US	