

SMITH & NEPHEW PLC
Form 6-K
August 01, 2014

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

August 1, 2014

Commission File Number 001-14978

SMITH & NEPHEW plc

(Registrant's name)

15 Adam Street

London, England WC2N 6LA

(Address of principal executive offices)

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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

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 Second Quarter 2014 Results** , dated August 1, 2014.

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: August 1, 2014

By: /s/ Susan Swabey
Susan Swabey
Company Secretary

Item 1

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 London WC2N 6LA
Smith & Nephew Second Quarter 2014 Results

Results reflect continued progress in rebalancing the company

1 August 2014

Smith & Nephew plc (LSE: SN, NYSE: SNN) results for the second quarter ended 28 June 2014.

	3 months to			6 months to		
	28 June	29 June	Underlying	28 June	29 June	Underlying
	2014	2013	Growth	2014	2013	Growth
	\$m	\$m	%	\$m	\$m	%
Trading results¹						
Revenue	1,147	1,074	3	2,220	2,149	2
<i>Divisional revenue</i>						
Advanced Surgical Devices global	810	741	4	1,568	1,501	3
Advanced Wound Management global	337	333	0	652	648	0
Trading profit	255	232	6	484	473	0
Trading profit margin (%)	22.3	21.6		21.8	22.0	
EPSA (cents)	20.4	18.0		38.1	36.5	
Reported results						
Revenue	1,147	1,074		2,220	2,149	
Operating profit	134	188		363	395	
EPS (cents)	10.0	14.3		26.8	30.1	

Second quarter highlights¹

Revenue was \$1,147 million, up 3% underlying and 7% on a reported basis

Trading profit was \$255 million, up 6% underlying and 10% on a reported basis

Trading profit margin of 22.3%, up 70bps

EPSA 20.4¢, up 13%

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Good quarter performance led by Sports Medicine Joint Repair, Trauma & Extremities and Orthopaedic Reconstruction, with growth rates significantly ahead of previous quarter

Advanced Wound Management revenue growth flat; 2014 outlook guidance updated

Emerging & International Markets revenue growth remains strong, up 17%

ArthroCare Corporation acquisition completed

Interim dividend of 11.0¢ per share (2013: 10.4¢)

Commenting on Q2, Olivier Bohuon, Chief Executive Officer of Smith & Nephew, said:

We have delivered a good increase in revenues and trading profit, resulting in a 13% uplift in EPSA. We believe this strong performance reflects the execution of our strategy to rebalance the business towards higher growth markets. In particular, we drove good growth in Sports Medicine Joint Repair and our investment in Emerging & International Markets has delivered a 17% increase in revenues. In Orthopaedic Reconstruction we saw an improved performance led by both US knees and hips.

We also completed the ArthroCare acquisition in the period. I am very excited by the prospects for our expanded Sports Medicine business.

With half of our revenues now coming from higher growth markets, and a more focused structure, we are well placed to take advantage of the many further opportunities we see.

News

Analyst conference call

An analyst presentation and conference call to discuss Smith & Nephew's second quarter results will be held at 9.00am BST/4.00am EST today, Friday 1 August. This can be watched live via webcast on the Smith & Nephew website at www.smith-nephew.com/results and will be available on the site archive shortly afterwards. For those who wish to dial in to the call, a listen-only service is available by calling +44 (0) 20 3427 1905 in the UK or +1 212 444 0896 in the US (passcode 1639508). If you would like to participate in the Q&A please dial +44 (0) 20 3140 8286 in the UK or +1 646 254 3388 in the US (passcode 1639508).

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Notes

- 1 Certain items included in 'Trading results', such as trading profit, trading profit margin, 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.
- 2 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 2013 period.
- 3 All numbers given are for the quarter ended 28 June 2014 unless stated otherwise.
- 4 References to market growth rates are estimates generated by Smith & Nephew based on a variety of sources.
- 5 Q2 2014 comprised 63 trading days (2013: 64 trading days).

Second Quarter Trading results

Our second quarter revenue was \$1,147 million, an increase of 3% on an underlying basis and 7% on a reported basis (2013: \$1,074 million). Foreign exchange and acquisitions added 1% and 3% respectively to the reported growth rate. There was one less trading day to the comparator quarter in 2013, which decreased underlying revenue growth by an estimated 1%.

Our recent areas of focused investment - Sports Medicine Joint Repair, Hip and Knee Implants, Advanced Wound Bioactives and the emerging markets - all performed strongly in the quarter.

We completed the acquisition of ArthroCare on 29 May 2014, further strengthening our Sports Medicine business. The second quarter results include the benefit of one month of trading from ArthroCare, with the business performing in-line with our expectations. Underlying growth rates have been adjusted to show like-for-like year-on-year performance as per our accounting policy for acquisitions and disposals.

Group revenue from our Established Markets was up 1%. Within this, revenue in the US was up 4% and down -3% in our Other Established Markets.

We again produced good revenue growth in the Emerging & International Markets, up 17% in the quarter. We performed strongly across a number of our focus markets, including China, India, South Africa and the Middle East.

Trading profit was \$255 million (2013: \$232 million), up 6% underlying and 10% on a reported basis. The trading profit margin was 22.3% (2013: 21.6%), up 70bps. The reported operating profit of \$134 million (2013: \$188 million) reflects acquisition costs largely relating to ArthroCare, as well as restructuring and rationalisation costs, amortisation of acquisition intangibles and legal and other items incurred in the quarter (see note 8 to the Interim Financial Statements).

The estimated tax rate for the full year is 28.0% on Trading results. In the last two years we have reduced our full year tax rate by approximately 200bps. As a result of a number of operational and structural changes to the business we expect to reduce the effective tax rate by a further 150 to 200bps over the next two years, absent any changes to tax legislation.

Adjusted earnings per share was 20.4¢ (102.0¢ per American Depositary Share, ADS) compared to 18.0¢ last year. Basic earnings per share was 10.0¢ (50.0¢ per ADS) (2013: 14.3¢).

Trading cash flow (defined as cash generated from operating activities less capital expenditure, but before acquisition related costs and restructuring and rationalisation costs) was \$179 million in the quarter. The trading profit to cash conversion ratio was 70%.

The net interest charge for the period was \$4 million. Net debt was \$1,911 million, up from \$216 million at the end of Q1 2014, following the closing of the ArthroCare acquisition.

The interim dividend is set by a formula and is equivalent to 40% of the total dividend for the previous year. The Board is therefore pleased to confirm that the interim dividend for the first half of 2014 is 11.0¢ per share (55.0¢ per ADS), compared with 10.4¢ last year. This will be paid on 11 November 2014 to shareholders on the register at the close of business on 24 October 2014.

Strategic Priorities

It is now three years since we set out our Strategic Priorities. These have guided our actions to make Smith & Nephew stronger and more efficient.

In **Established Markets** we are transforming our organisation through focused investment and greater efficiency. During the quarter we started streamlining our European business model by moving to a single General Manager for each country under a new Head of Europe.

In **Emerging & International Markets** we have built an entrepreneurial business resourced to maximise growth opportunities by delivering both premium and mid-tier products to more customers. In the first half of this year 14% of our revenue came from these markets, up from 8% in 2010. We expect this momentum to continue in the second half and beyond as we deliver more products and benefit from our organic investments and acquisitions.

We **innovate for value**, delivering products that have improved patient outcomes and access, whilst reducing the economic burden on healthcare systems. We have a strong new product pipeline, with a number of releases planned for the second half of 2014, especially in Trauma & Extremities and Sports Medicine. We have also driven innovation into our business models, seeking new ways to serve our customers.

By **simplifying and improving our operating model** we are increasing our agility and efficiency. In 2011 we announced a programme to generate annual savings of \$150 million. By 28 June 2014 we had achieved annualised savings of almost \$140 million. As announced last quarter, we are commencing a further programme to realise at least another \$120 million, ensuring we maintain the ability to invest in our growth opportunities.

We are **supplementing our organic growth through acquisitions**. Healthpoint Biotherapeutics gave us a leading position in Advanced Wound Bioactives, the fastest growing segment of Advanced Wound Management. ArthroCare, completed this quarter, has strengthened our Sports Medicine business. Its technology and products will significantly enhance our portfolio, and we will use our global presence to drive substantial new growth.

Advanced Surgical Devices global (ASD)

ASD delivered revenue of \$810 million in the quarter, up 4% underlying (2013: \$741 million).

Revenue growth in the US was up 4%, and flat in our Other Established Markets. Our Emerging & International Markets business continues to deliver strong results, with revenue growth up 19%. The like-for-like pricing pressure in the quarter remained unchanged across our markets.

Trading profit for the quarter was \$191 million (2013: \$170 million). The trading profit margin of 23.7% (2013: 22.9%) reflects the benefits of our efficiency programmes offset by continued investment in the roll-out of new products.

In our **Knee Implant** franchise revenue was up 2% in the quarter, in-line with the market growth rate. In the US, knee revenue was up 4%, ahead of the market. This performance reflects a better quarter for our core knees plus strong demand for the JOURNEY[®] II Total Knee System. During the period we announced an agreement to make robotic surgical navigation available to surgeons implanting the JOURNEY UNI[®] partial knee, enhancing placement and balancing of the implant.

We grew revenue in our global **Hip Implant** franchise by 3% in the quarter, an improvement from Q1 when our revenue was flat. The Q2 market growth rate was 2%. In the US our hip revenue was up 3%. We benefitted from our recent marketing initiatives for VERILAST[®] hips and our new revision portfolio also continued to perform strongly. Worldwide sales of the BIRMINGHAM HIP[®] Resurfacing System are stable and now negligible in a Group context.

We have been investing in an innovative commercial solution for Orthopaedic Reconstruction that fulfils the unmet needs of customers searching for a different value proposition. Called Syncera, it offers customers two of our clinically proven primary hip and knee implants combined with cutting-edge technology that streamlines the supply chain and logistics and enables technical support in the operating room. This new model has the potential to generate significant savings for the customer. Following very positive feedback, we expect to start shipping the first product shortly.

Our **Sports Medicine Joint Repair** franchise delivered 9% revenue growth. The quarter includes one month's trading from ArthroCare. Its shoulder anchor portfolio strongly complements our strength in knee repair, forming an extensive, integrated portfolio.

In **Arthroscopic Enabling Technologies** revenue declined by -1%, as expected, and in-line with previous quarters. This franchise now includes the latest generation of ArthroCare's radio frequency Coblation[®] technology and we are confident in our ability to grow this business. In the quarter we introduced the DYONICS[®] PULSE Wireless Image Solution for the management of surgical procedure data.

In our **Trauma & Extremities** franchise we delivered revenue growth up 7%, a stronger performance than Q1 when revenue fell -1%. We secured a major Trauma tender win in the Middle East. We continue to strengthen our Extremities portfolio, announcing our entry into the forefoot market after the quarter end with the launch of the HAT-TRICK[®] Lesser Toe Repair System.

Our **Other ASD** segment includes ArthroCare's Ear, Nose & Throat (ENT) and our Gynaecology businesses. We grew revenue in this segment by 18% in the quarter.

Advanced Wound Management global (AWM)

AWM revenue was flat in the second quarter at \$337 million (2013: \$333 million) against an estimated global market growth rate of 2%.

Our revenue growth was up 7% in the US and down -8% in the Other Established Markets. We delivered 13% revenue growth in the Emerging & International Markets.

Trading profit was \$64 million (2013: \$62 million), resulting in a trading profit margin of 18.8% (2013: 18.7%). As with the first quarter, the trading profit margin partly reflects the slower revenue growth in the period, as well as the continued investment in the HP-802 phase III trials.

In **Advanced Wound Care** revenue was down -8%, partly due to our execution, which the new management team is addressing, and partly due to some further de-stocking in our wholesale channel, as guided to last quarter. We launched ALLEVYN[®] Life in Japan during the quarter.

In **Advanced Wound Devices** we grew revenue by 1%. This performance mainly reflects the continued competitive pressures in traditional canister-based Negative Pressure Wound Therapy (NPWT) in Europe. We launched our single-use, canister-free PICO[®] system in Japan in the quarter.

As previously disclosed, at the end of the period we were required to initiate a distribution hold in the US on our RENASYS[®] traditional NPWT system. New regulatory clearances are required by the FDA in respect of certain design enhancements. We are working with the FDA to obtain these. Assuming this process takes the rest of the year, we anticipate that revenue for 2014 will be approximately \$30 million below our previous expectations, with the majority impacting profit. Additionally, we have taken a \$25 million provision in the second quarter for related costs. We intend keeping the sales infrastructure in place and refocusing it on other products, such as PICO, which is not affected. RENASYS remains available outside of the US.

In **Advanced Wound Bioactives** we delivered revenue growth of 21%. SANTYL^à benefitted from volume growth as well as some distributor stocking ahead of an inflation-linked price rise. This pull-forward will be reflected in next quarter's headline revenue growth. REGRANEX[®]Gel continued to build momentum following its re-launch earlier this year. Overall Advanced Wound Bioactives remains on track to meet our 2014 guidance of mid-teens revenue growth.

Outlook

We anticipate that the prevailing market conditions seen in the first half of 2014 will continue throughout the rest of the year. We expect the Established Markets to be broadly stable with some signs of improvement, and the increasingly important Emerging & International Markets to continue to offer good opportunities for stronger growth.

Against this backdrop, we remain confident in our overall Group outlook for the full year. Within this, in terms of revenue growth by franchise, we expect Orthopaedic Reconstruction to grow at close to the market rate; Trauma & Extremities to grow at the market rate and Sports Medicine to grow at above the market rate. We now expect Advanced Wound Management to grow below the market rate for the full year.

In terms of trading profit margin, we continue to expect to exceed our 2013 performance. We are working to offset the impact of the distribution hold on US traditional NPWT through actions in US Advanced Wound Management and our efficiency programmes.

With half of our revenues now coming from higher growth markets, and a more focused structure, we are well placed to take advantage of the many further opportunities we see.

About Smith & Nephew

Smith & Nephew is a global medical technology business dedicated to helping healthcare professionals improve people's lives. With leadership positions in Orthopaedic Reconstruction, Advanced Wound Management, Sports Medicine and Trauma & Extremities, Smith & Nephew has around 14,000 employees and a presence in more than 90 countries. Annual sales in 2013 were more than \$4.3 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; litigation relating to patent or other claims; legal compliance risks and related investigative, remedial or enforcement actions; 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.

à Trademark of Smith & Nephew. Certain marks registered US Patent and Trademark Office.

2014 QUARTER TWO AND HALF YEAR CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
Unaudited Group Income Statement for the three months and six months to 28 June 2014

3 Months 2013 \$m	3 Months 2014 \$m		Notes	6 Months 2014 \$m	6 Months 2013 \$m
1,074	1,147	Revenue	2	2,220	2,149
(278)	(288)	Cost of goods sold		(556)	(547)
796	859	Gross profit		1,664	1,602
(550)	(661)	Selling, general and administrative expenses		(1,181)	(1,097)
(58)	(64)	Research and development expenses		(120)	(110)
188	134	Operating profit	8	363	395
4	4	Interest receivable		7	7
(3)	(8)	Interest payable		(14)	(5)
(2)	(2)	Other finance costs		(5)	(4)
1		Share of (loss)/profit from associates		(2)	(1)
188	128	Profit before taxation		349	392
(59)	(39)	Taxation	3	(110)	(120)
129	89	Attributable profit ^A		239	272
Earnings per share ^A					
14.3¢	10.0¢	Basic	8	26.8¢	30.1¢
14.2¢	9.9¢	Diluted		26.6¢	29.9¢

Unaudited Group Statement of Comprehensive Income for the three months and six months to 28 June 2014

3 Months 2013 \$m	3 Months 2014 \$m		6 Months 2014 \$m	6 Months 2013 \$m
129	89	Attributable profit ^A	239	272
Other comprehensive income				
<i>Items that will not be reclassified to income statement</i>				
45	2	Actuarial (losses)/gains on retirement benefit obligations	(8)	25
(18)	4	Taxation on other comprehensive income	7	(16)
27	6	Total items that will not be reclassified to income statement	(1)	9
<i>Items that are or may be reclassified to income statement</i>				
(15)	11	Exchange differences on translation of foreign operations	16	(93)
7	(2)	Net (losses)/gains on cash flow hedges	(4)	7

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(8)	9	Total items that are or may be reclassified to income statement	12	(86)
19	15	<i>Other comprehensive income for the period, net of tax</i>	11	(77)
148	104	Total comprehensive income for the period ^A	250	195

A Attributable to the equity holders of the parent and wholly derived from continuing operations.

Unaudited Group Balance Sheet as at 28 June 2014

	Notes	28 June 2014 \$m	31 Dec 2013 \$m	29 June 2013 \$m
ASSETS				
Non-current assets				
Property, plant and equipment		893	816	761
Goodwill		2,070	1,256	1,159
Intangible assets		1,868	1,054	1,029
Investments		2	2	2
Loans to associates		184	178	173
Investment in associates		109	107	107
Retirement benefit assets			5	
Deferred tax assets		84	145	141
		5,210	3,563	3,372
Current assets				
Inventories		1,185	1,006	933
Trade and other receivables		1,207	1,113	1,046
Cash at bank	6	140	137	101