Contents

Context

Our market

Our strategy

Our targets and plans
Addressing our customers’ needs through innovation

It’s time to reduce the human and economic cost of wounds

For patients. For budgets. For today.
Our Purpose

To be the Global Leader in Advanced Wound Management, delivering superior patient outcomes and at the same time conserve resources for healthcare systems

Strategic Ambitions:
• Market leadership
• Drive above market growth in attractive market segments
• Deliver significant scale improvement in the US
• Support growth initiatives in emerging markets
• Accelerate our investment in innovation

Core Capabilities
• In depth knowledge, understanding and focus on wound care
• Unrelenting customer focus
• Strong track record of innovation and creativity
• Develop and market best in class products
• Highly professional and dedicated sales force
• World leader in quality, safety and compliance
• Excellent people, facilities and systems
Snapshot - Advanced Wound Management

- Global sales of $1bn
- We have just over 2,800 employees globally with a presence in over 90 countries
- Our products treat approx. 26m wounds per year and are focused on healing hard to heal wounds
- Our customer channels include a range of institution and community settings
- We have a leading market position and a broad product range
- Our aim is to help reduce the human and economic cost of wounds

We are well positioned for growth
Commercial business structure

**Advanced Wound Care**

**Infection Management**
- ACTICOAT Flex

**Exudate Management**
- ALLEVYN Gentle Border

**Core Products**
- OPSITE Post Op Visible
- IV3000

**Advanced Wound Devices**

**NPWT**
- RENASYS

**Surgical**
- PICO
- VERSAJET II
Our footprint

Hull, UK

St. Pete's, US

Barcelona, Spain

Melbourne, Australia

Tokyo, Japan

Suzhou, China
AWM is recognised as having established a solid performance foundation.

1 WW at actual currency rates
2 At constant currency rates
3 2010 impacted by BlueSky settlement (+280bps)

Source: Company quarterly financials; team analysis
AWM (Est Mkt) – scale and growth

**AWM (Est Mkt) Revenues – geographic split**

- **2012 Q3 YTD**: $660m, +3%
- **US**: 23%
- **Est OUS**: 77%

**AWM (Global) Revenues – product franchise split**

- **2011 FY**: $906m, +6%
- **$1,019m**, +7%
- **Other AWM**: 61%
- **Infection**: 13%
- **Exudate**: 26%

Source: Company quarterly financials
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It's time to cut the cost of wounds

<table>
<thead>
<tr>
<th>Human cost</th>
<th>Economic cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Surgical site infection</td>
<td>Surgical site infection</td>
</tr>
<tr>
<td>• 30 extra days in hospital</td>
<td>• 1 month treatment – £75k</td>
</tr>
<tr>
<td>• Pain, distress, anxiety</td>
<td>• Potential million dollar litigation</td>
</tr>
</tbody>
</table>

Why do we insist on the highest levels of the highest quality for our advanced anti-microbial dressings? Because we want to help you reduce the human and economic cost of wounds. And we know that one of the best ways to do this is to dramatically reduce surgical site infection.
The wounds our products heal

• **26 million** accessible/treatable wounds
  - Diabetic Foot Ulcers (DFU)
  - Venous Leg Ulcers (VLU)
  - Pressure Ulcers (PU)
  - Burns (superficial through to full thickness)
  - Skin grafts
  - Surgical wounds

• In addition there are also:
  - Elective surgical wounds
  - IV insertions
Our customers and selling channels

**In-patient**
- Surgeries e.g. vascular, burns, trauma

**Out-patient**
- Nurses e.g. wound care specialists, tissue viability

**Private/Military**
- Stakeholders e.g. hospital administrators, purchasing

**Hospital**
- 168 acute trusts in the UK, equal to 160k beds
- Approx. 3,500 hospitals in France, equal to 500k beds
- Approx. 3,400 hospitals in Germany
- Approx. 6,000 hospitals in the US

**Community**
- Approx. 16,100 nursing homes in the US
- 1.4m GPs/physicians and 2.6m nurses across Europe
- Spain has approx. 5,000 nursing homes
- France has >22k pharmacies, UK has approx. 11k

**GP/specialist clinic**
- Community physicians. Long-term care nurses

**Pharmacy/OTC**
- Longer-term care facilities e.g. nursing homes

**Home Care**
- Patients either directly for over-the-counter or via prescriptions

Source: S&N estimates; Expert interviews; Team analysis
Six trends that are shaping our markets

1. Market fundamentals remain highly favourable for AWM:
   • ageing demographic
   • high levels of unmet need and increasing patient expectations
   • disease states such as diabetes and conditions including surgical site infections/obesity are also on the increase

However, the market is changing faster than ever before:

2. Payors everywhere facing substantial budget pressures for foreseeable future; leveraging greater purchasing sophistication further pressuring prices; governments reducing expenditure

3. Macroeconomic environment in Europe has deteriorated beyond expectations accelerating the rate of reforms in healthcare systems, through an increasingly wide range of levers

4. In the US, disease burden and increased penetration will continue to drive longer term volume growth for AWM, offset by competitive pricing pressures in NPWT

5. Heightened vigilance, healthcare reforms and technological advances driving shift from traditional products to advanced therapies

6. Customers more focused on lower cost, “value” products and economically supported disease pathways
The global AWM market will remain attractive, with likely growth of 3% CAGR reaching US $6.9bn in 2017.
AWC remains the dominant product segment

AWM market size by product category

USD millions

<table>
<thead>
<tr>
<th>Product Category</th>
<th>2008</th>
<th>2011</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>NPWT</td>
<td>~5,350</td>
<td>~5,850</td>
<td>~6,900</td>
</tr>
<tr>
<td>AWC</td>
<td>~3,900</td>
<td>~4,250</td>
<td>~6,900</td>
</tr>
</tbody>
</table>

CAGR, percent

<table>
<thead>
<tr>
<th>Period</th>
<th>2008-10</th>
<th>2010-11</th>
<th>2011-17</th>
</tr>
</thead>
<tbody>
<tr>
<td>NPWT</td>
<td>2.8%</td>
<td>2.0%</td>
<td>3%</td>
</tr>
<tr>
<td>AWC</td>
<td>3.7%</td>
<td>2.1%</td>
<td></td>
</tr>
</tbody>
</table>

AWM market definition excludes Biologics $1.2bn, Surgical/Closure $5.5bn and Traditional $4.8bn – Source GIA 2010
Source: S&N estimates; Expert interviews; Team analysis
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<td>Our targets and plans</td>
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**Reducing the human and economic cost of wounds.**

*With a dressing that is as effective on Day 7 as it is on Day 1.*

At Smith & Nephew, we are dedicated to helping you reduce the human and economic cost of wounds. Allevyn® dressings help achieve both objectives because they absorb exudate, remove bacteria and maintain the ideal healing environment for seven days, fewer dressing changes, less nursing time. Good news for patients and budgets.

[www.smith-nephew/performancecaulking.com](http://www.smith-nephew/performancecaulking.com)
Six critical pillars of our strategy

WIN IN ESTABLISHED MARKETS
- Respond to fast changing market in Europe to strengthen AWM leadership position
- Achieve scale in US
- Accelerate share capture in NPWT OUS

SUPPORT GROUP’S GROWTH IN EMERGING MARKETS
- Support growth and infrastructure in BRIC and International Market divisions:
  - Adapt products to market needs with relevant evidence
  - Market development, education and increased penetration of AWM

INNOVATE FOR VALUE
- Recommit to bring ground-breaking products to market
  - Broaden concept of R&D from “product” to “whole package”
  - Include evidence of clinical and economic value

SIMPLIFY OUR OPERATING MODEL
- Further optimise manufacturing infrastructure through:
  - Extending facility in Suzhou, China and optimise with Hull, UK facility

ACCELERATE ORGANIC GROWTH THROUGH M&A
- Achieve scale in the US and ensure a sustainable and leading market position
- Acquire break-through innovative technologies to add to the portfolio
- EU leverage and structural consolidation

ENSURE WE HAVE THE RIGHT CAPABILITIES AND ENABLERS TO WIN
- New capabilities particularly;
  - New channels, tendering, pricing, customer insight and health economics
- Harmonise IS platform to greatly increase productivity

It’s time to reduce the human and economic cost of wounds
EU AWC remains a key market

Strong fundamentals continue to drive growth in EU AWC

- EU AWC market forecast @ 2%
  - positive volume (population growth, epidemiology, penetration)
  - on-going price pressure
- Country and specific markets differ in their likely future evolution
  - France / Germany: positive outlook, growth continues
  - Italy / UK: neutral outlook
  - Spain: severe tender driven price pressure

Key strategic initiatives in EU

- Develop best-in-class pricing and tendering capabilities
- Drive NPWT Commercialisation
- Launch value oriented products
- Segment customers by needs and behaviour and tailor commercial model
- Reallocation sales resources to priority customer segments
- Invest in leaner sales models
- Decrease sales force cost base and/or increase sales force productivity
- Target the influencers through education

Source: S&N and expert interviews; team analysis
In Spain, we will refocus resources on pockets of growth, and ensure flexibility in our cost base.

We will explore ways to maximise productivity of our sales force by ensuring it is sufficiently flexible to adapt to the dynamic tender market.

- Spanish market dominated by tenders
- When tender is lost, productivity of sales force in region drops substantially
- Limit this impact through use of:
  - contract sales organizations
  - co-marketing partnerships
  - leaner sales channels
Strong fundamentals will continue to drive growth in US AWC

Market fundamentals will continue to drive growth in AWC

- US AWC market growth forecast @ 5%
  - population / epidemiology growth
  - penetration growth supported by DRG changes and under penetration
  - pricing pressure, particularly hospitals and LTC
- Hospital channel still the largest and growing high single digit
- Long term care channel contracting due to Medicare cuts

Key strategic initiatives in US

- Capture market share in acute care AWC by increasing direct sales force headcount
- Reaccelerate LTC growth by growing the partner sales force, additional training and improving account focus through customer segmentation
- Broaden direct hospital and LTC facility contracting to drive additional volume/contract compliance

Source: S&N and expert interviews; team analysis
NPWT remains a key growth priority

**Key Market Dynamics**

- Overall market stable or slightly declining in next 1-2 years and then gradual pickup
- Decline in pricing expected for next 1-2 years
  - Increase in value brand players
  - Increasing budget pressures (tendering) and purchasing sophistication esp. in ES, UK and IT
- Continuing increase in penetration of NPWT particularly with community reimbursement

**Focused NPWT Strategy**

- EU customer focus and orthopaedic procedures
- Market expansion
- Disposable NPWT

**Accelerate tNPWT Growth**

- Accelerate growth building on strong ‘landmark’ success. E.g. Cleveland Clinic, Duke, Kaiser, North Western
- Competitive Bidding opportunity

**Growth in hybrid model**

- Strong opportunity to change the model particularly in acute care
- Capital / rental model supported by partners across all channels

**Uptake of PICO**

- PICO expanding the volume of wounds treated, with minimal conversion from tNPWT
- Large PICO opportunity in acute segment as well as in home care and LTC

Source: S&N and expert interviews; team analysis
Opportunity to extend market leadership in Japan

Market Trend by Product Category

- Exudate Management
- Infection Management
- Skin Closure
- Core (Film)
- Others
- AWD

2012 ($268m)

- 27%
- 14%
- 15%
- 23%
- 12%
- 9%

2017 ($378m) 7% CAGR

- 36%
- 20%
- 10%
- 18%
- 8%

- RENASYS NPWT GO & EZ launched September 2012
- VERSAJECT Hydrosurgery system launched September 2012
- Attractive NPWT market $100 - $150m
- Full pipeline pending approval
  - HYDROSITE Ag
  - HYDROSITE Life
  - PICO

Source: S&N and expert interviews; team analysis
### Strong history of innovation

<table>
<thead>
<tr>
<th>Year</th>
<th>Product</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1975</td>
<td>OPSITE◊</td>
<td>Transparent Film Dressing&lt;br&gt;The first moist wound dressing</td>
</tr>
<tr>
<td>1985</td>
<td>VERSAJET◊</td>
<td>Hydrosurgery System</td>
</tr>
<tr>
<td>1989</td>
<td>TRIPLE CARE◊</td>
<td>Skin Care System&lt;br&gt;The first system-approach to skin care</td>
</tr>
<tr>
<td>1987</td>
<td>IODOSORB◊</td>
<td>0.9% Cadexomer Iodine Gel&lt;br&gt;Unique and safe bactericidal iodine preparation; 1994 Worldwide except US, Japan 2006 US and Japan</td>
</tr>
<tr>
<td>1990</td>
<td>PROGUIDE◊</td>
<td>Multi-layer High Compression Bandaging System</td>
</tr>
<tr>
<td>1994</td>
<td>BIOSTEP◊</td>
<td>Collagen Matrix Dressing</td>
</tr>
<tr>
<td>1995</td>
<td>ACTICOAT◊</td>
<td>Antimicrobial barrier to bacterial penetration</td>
</tr>
<tr>
<td>2001</td>
<td>PROFORE◊</td>
<td>Four Layer Bandage System&lt;br&gt;For more effective management of venous ulcer disease</td>
</tr>
<tr>
<td>2004</td>
<td>NPWT</td>
<td>Negative Pressure Wound Therapy (NPWT)&lt;br&gt;V1STA EZCARE</td>
</tr>
<tr>
<td>2004</td>
<td>SECURA◊</td>
<td>Preventive Skin Care System&lt;br&gt;AWM wins Queens Award for technical achievement</td>
</tr>
<tr>
<td>2006</td>
<td>ALLEVYN◊</td>
<td>Hydrocellular Foam Dressing&lt;br&gt;2006 New absorbent technology; 2007 ALLEVYN Ag</td>
</tr>
<tr>
<td>2006</td>
<td>RENASYSEZ &amp; GO</td>
<td>NPWT Systems</td>
</tr>
<tr>
<td>2007</td>
<td>PICO◊</td>
<td>Single Use NPWT System</td>
</tr>
<tr>
<td>2009</td>
<td>ALLEVYN◊</td>
<td>Gentle Border&lt;br&gt;Heel, Ag Gentle &amp; Gentle Border</td>
</tr>
<tr>
<td>2009</td>
<td>ALLEVYN◊</td>
<td>Gentlemen's Club&lt;br&gt;Heel, Ag Gentle &amp; Gentle Border</td>
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</table>
Enhancing our innovation leadership

We plan to grow and re-balance our R&D expenditure, with more focus on clinical/economic value and breakthrough innovation.

Robust New Product Development Pipeline

- Renasys NPWT
- Acticoat Flex
- Allevyn GB
- Versavit Next Gen
- Acticoat Post-Op
- Post-Op Vision

58 new products launched in last 2 yrs
R & D investment 3.5% to 5.0%

Transformational

- NPWT Foam Kits
- Allevyn Sactum
- Infection Mgmt.
- Pressure Ulcer Prevention

Economic & Clinical Innovation

- Compelling Value Proposition
- Influencing Clinical Protocol
- Impacting Economic Outcomes

Growing Portfolio for Emerging & International Markets

23 new product launches planned for China & India

Key Focus Areas

- Disposable NPWT
- Next Generation tNPWT
- Exudate Management
- Entry to Prevention Market

Reducing the human and economic costs of treating wounds
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Our targets and plans
Summary

• Strong attractive market place with favourable market fundamentals

• Strong track record of performance

• We have a clear strategy to:
  - Adapt go-to-market model to win in EU
  - Achieve scale in US through gaining share in NPWT market and regaining leadership in AWC
  - Accelerate capture of NPWT share OUS
  - Maintain high intensity innovation and re-establish differentiation
  - Further optimise manufacturing to establish industry leading margins
  - Augment growth with inorganic investments