Advanced Wound Management in Europe
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19-20 November 2009
External forces shaping our global business

- Economic Forces
- Competitive Forces
- Market Forces
- Geographic Forces
AWM is a very attractive and growing market

Traditional

$4.4bn

Pharma

Advanced

$12.0bn

Wound Mgmt Market

Traditional

$4.4bn

Pharma

Advanced

$12.0bn

Wound Mgmt Market

$6.1bn

Surgical/closure

$0.8bn

Biological

$3.4bn

AWC IM, EM and Core

$1.7bn

NPWT/other modalities

Source: Smith & Nephew, Global Industry Analyst Report, June 2007, Espicom, Company Accounts

IM = Infection Management, EM = Exudate Management

US

$2.2bn

ROW

$0.9bn

EU

$2.0bn

S&N Focus by Geography

$5.1bn today growing to >$7.1bn by 2014 (7% CAGR)
AWM Strategy Overview

**Situation**
- Advanced wound market is predicted to grow from $5.1bn to $7.1bn within the next 5 years
- Healthcare reform (primarily US market) will shift healthcare delivery economics and innovation adoption
- Demographics such as ageing population, obesity and diabetes are key drivers of this growth
- Geographically, the US is the fastest growing market AND EU remaining highly attractive

**Approach**
- Drive above market growth in attractive market segments – NPWT, EM and IM
- US market to deliver significant profitable revenue and margin improvement
- Drive margin improvement through EIP and low cost manufacturing
- Recruit, retain and motivate the very best people to deliver the plan

**Investing for growth**
- High Growth, High Value Segments

**Efficient**
- Operational Excellence via EIP and low cost manufacturing

**Customer-led**
- Geographic Focus on Growth & Value

**Aligned**
- High Performance Organisation

Create a high value business portfolio

Drive operational synergies to deliver margin commitments to industry leading levels

Focus on attractive geographic regions

Develop a high performing organisation
Advanced Wound Management in Europe
Europe is our leading region for Advanced Wound Management business

- 53% of worldwide sales*
- A strong leadership position
- Healthy margins
- Recent performance turnaround
- Platform established for sustainable, above market growth

* Source: Q3 2009 YTD
An attractive $2.0bn EU market with significant potential for future growth

Population prevalence of wounds is 4/1000 people in EU ... 2m people living with serious wounds at any one point in time

**Chronic Wounds**
- Pressure ulcers
- Diabetic foot ulcers
- Venous leg ulcers

**Acute Wounds**
- Burns and trauma
- Surgical wounds
Wounds occur across the whole healthcare continuum

- Complex and fragmented market
- Hospital and Community
- Nurses, Doctors, Surgeons, Procurement
- Users, influencers, decision makers
- Individual Prescribers, Formularies and Committees
- Distribution intermediaries & relationships (Community)
Our experience in serving the market places us well

- Market knowledge and customer intimacy
- Leadership image built over many years
- Extensive portfolio of leading products
- Established critical mass in all key countries
- Full channel access

Competitor share in Europe

Source: AWM market (Western Europe) Frost & Sullivan 2008
How do we work in this market?

- Product detailing to individual users/prescribers
- Advanced selling to Surgeons
- Strategic selling to decision-making groups
- Educational workshop and events
- Clinical specialists to support
- Marketing communications (direct mail, E-communications, PR events)
- Wholesalers and distribution intermediaries (Community)

Highly trained Sales Representatives .... organised around customer type / channel structure
A turnaround in performance following a major EU transformation programme

- Key Enablers
- Leadership and culture
- Enhanced regional focus – Pan-European initiatives
- UK and Germany recovery plans
- Organisation restructuring and de-layering
- Talent development
- New products – strengthened competitive platform
As part of EIP, we have driven a restructuring programme across Europe for both enhanced top line and margin improvement

- Six European clusters
- Management and support staff de-layering
- Facility relocations and consolidation
- Cross regional synergies
- Best practice facilitation

*DACHE – Germany, Austria, Switzerland and Eastern Europe*
We have paid particular attention to achieving consistent pricing across Europe

- Pan-European price bands
- Country specific reimbursement products
- Wholesaler relationships and discount levels
- June 2009 - first medical device company in UK to implement a reduced wholesaler model

Reduced Wholesaler Model (UK Community)

Benefits for Both:
- Greater control and visibility of stock
- In-market demand more aligned to ex-factory sales
- Better New Product Launch process
- Partnership relationships with Selected Wholesalers
We have been building a high performance team and creating a platform for sustainable above market growth

- Sales force effectiveness programme
- First level sales management
- Consistent performance management and execution
- Talent development
  - External recruitment
  - Internal development

All our European sales force are now using a CRM system
What is next? Long-term market dynamics are very positive, but we are aware of tightening healthcare expenditure

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<td>• Health system ‘quality’ metrics</td>
<td>• Lack of awareness of good quality care</td>
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The big idea . . . we can help our customers deliver improved clinical outcomes at reduced overall costs

The true costs of wound care are hidden

Cost of wound care in Hull & East Riding in Yorkshire, UK

- Wounds duration median was 6-8 weeks
- 13% of wounds were reported as infected
- 40% daily dressing changes in hospital

| Estimated cost of wound care to NHS in Hull and East Yorkshire, 2005-2006 |
|----------------|----------------|----------------|
| Patients       | 2199           |                |
| Wounds         | 3166           |                |

Wound care costs

| Dressings & other materials | £3.21 million | 17-22% |
| Nurse time                 | £6.08 million | 33-41% |
| Inpatient costs            | £5.45 - £9.08 million | 37-49% |
| Total                      | £14.74 to £18.37 million |

Source: International wound journal, June 2007, volume 4, issue 2
Leveraging our overall value proposition through strategic selling and partnership models

- Advanced product portfolio combined with strengths in education
- Health economic data and awareness
- Focus on being the solution not the problem
- Strategic selling and lobbying to senior health system management

At Smith & Nephew, we believe no one should have to live with a wound for a minute longer than necessary.
Eucomed Wound Care Policy Paper
Immediate term opportunities are significant in high value, high growth segments.

High Value, High Growth Segments in AWM

- NPWT: Circa $300m market
- Exudate Mgmt.: ALLEVYN double digit growth
- Infection Mgmt.: Hospital Acquired Infections - new innovations
NPWT – we are making excellent progress

- 100 dedicated sales reps and clinical support
- Competency development over last 18 months
- Successful RENASYS launch
- Legal success in UK/Germany
- Strong S&N ‘image’ creates platform for growth

Actual European Revenue Trend for NPWT
ALLEVYN – our largest brand, with some excellent opportunity for future growth

- Accounts for circa 40% of our business in EU
- Foam market circa $500m
- S&N share circa 34%
- Excellent recent new products
- Opportunity for significant share gain
An opportunity to lead the market development of infection management - with some new innovations

Infection prevention
OPSITE Post-op visible

Infection management
ACTICOAT Flex
Spotlight on German Health System

- 3rd largest medical device market in the world
- Total health spend in 2007 was €253bn
- Financed by mandatory statutory health insurance (SHI)
  - Employees + employer contributions
- Hospitals and community operate under different systems
  - Hospitals – DRG/set fees approach
  - Community – physicians operate with set budgets; budget overruns trigger efficiency audit
- Medical device pricing freely negotiable with hospitals, wholesalers/pharmacy
  - Full reimbursement in hospitals for all devices
  - Selective reimbursement in community, wound dressings reimbursement not NPWT
- Current Government Policy is to focus on open competition and deregulation
Smith & Nephew AWM in Germany

- Advanced Wound management market estimated at $390m
- Smith & Nephew Germany, accounts for ~ 20% revenues (1/3 hospital, 2/3 community)
- Recent performance issues with slow/negative growth 2004-2006
- Embarked on major restructuring and performance program in 2006

Germany Transformation Programme

- Leadership change
- Sales force re-alignment to customer channel
  - community
  - hospital
- Relocation of head office
- Talent development & recruitment

Germany Underlying revenue growth %
Germany – opportunity for sustainable double digit growth by driving NPWT market share

- Largest medical device market outside the US
- Receptive to change
- Potential for reimbursement in community to expand market
- S&N momentum and position establish
- Example of account conversion
  - Large private hospital group
  - Initial joint contact with KCI
  - Now signed exclusive contract with S&N until 2010
Europe Summary

- A leading region for Advanced Wound Management
- Performance transformation
- An excellent platform for future success
  - NPWT
  - ALLEVYN
  - Infection Management
- Long term prognosis is good
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