Advanced Surgical Devices division (ASD)
Mike Frazzette, President, ASD
29 November 2012
Advanced Surgical Devices Division (ASD)

Vision
The Premier Provider of “Advanced Surgical Devices” that help improve lives

Strategic Mission
Delight our customers by providing solutions that enable surgery, improve outcomes and deliver value to the healthcare systems

ASD Imperatives
• Managed re-profile of ASD
• Execute ASD Value Plan
• Reduce Complexity in Portfolio and Processes
• Optimize Commercial Models
• Attract/Retain/Develop Talent
• World-class Quality & Compliance
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## Our global market

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<tr>
<td>Extremities</td>
<td>#4</td>
</tr>
<tr>
<td>Trauma</td>
<td>#3</td>
</tr>
<tr>
<td>Recon (Hip &amp; Knee)</td>
<td>#4</td>
</tr>
<tr>
<td>Sports Medicine Joint Repair</td>
<td>#2</td>
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<tr>
<td>Enabling Technology</td>
<td>#1 in Resection</td>
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<th></th>
<th>Full Year 2011</th>
<th>Estimated FY 2012</th>
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<tr>
<td></td>
<td>Revenue*</td>
<td>Growth</td>
</tr>
<tr>
<td>Trauma</td>
<td>$4.3</td>
<td>5%</td>
</tr>
<tr>
<td>Arthroscopy</td>
<td>$3.7</td>
<td>8%</td>
</tr>
<tr>
<td>Extremities</td>
<td>$3.5</td>
<td>11%</td>
</tr>
<tr>
<td>Recon</td>
<td>$13.4</td>
<td>0%</td>
</tr>
<tr>
<td>Hips</td>
<td>$6.2</td>
<td>1%</td>
</tr>
<tr>
<td>Knees</td>
<td>$7.1</td>
<td>-1%</td>
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*in billions

Source: S&N estimates.
Recon Segment Share Trend
No significant shift in last 12 years

1999: 13%, 26%
2006: 16%, 25%
2011: 15%, 23%

Source: S&N estimates adjusting for acquisitions
ASD – scale and growth

ASD (Est Mkt) Revenues – geographic split

2012 Q3 YTD $2,050m +1%

US 53%

Est OUS 47%

2011 FY $2,910m +2%

ASD (Global) Revenues – product franchise split

2012 Q3 YTD $2,311m +2%

Knee 28%
Hip 21%
Joint Repair 17%
Enab Tech 13%
Trauma 15%
Other ASD 6%

2011 FY $3,251m +3%

Underlying growth (%) + EM/IM = Underlying growth (%)
Market trends

European austerity continues
US healthcare still evolving
- Need to offset Medical Device Tax
Macroeconomic impact expands
Metal-on-Metal headwind & carry-on effects
Market share in Recon has not shifted substantially in last 10 years
Evolving customer(s)

Positioned for success

ASD Est Markets 2011 - $2.9bn/2% growth
Strong brand/loyal customers
History of innovation
Strong positions in market segments
Experienced sales force
Surgeon education
Seasoned management team
Opportunity to reduce capital employed
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Making choices

Mandate:

Deliver Strong and Consistent Earnings Growth to the Group for Investment in R&D and High Growth Opportunities and Deliver a Return to Shareholders

Managed Re-profile

Targeted growth, managed investment to create a more flexible, consistent, and stronger business profile
ASD: Strategic Framework

CORE PLATFORMS

- Strategic innovations
- Market performance/
  Deliver earnings
  Recon, Enabling Technologies
- Slower market growth
- Optimize commercial models
- Reducing portfolio complexity

GROWTH PLATFORMS

- Disruptive, sustaining & rapid iterations
- Specialty channels with clinical focus
- Grow Above Market
  Sports Med Repair, Trauma and Extremities, AHT
- Shortened product lifecycles
- Biomaterials-based solutions
- Market development
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Last 12 months

- Restructured business
- Quickly and strategically taken cost out of the business
- Sales force maintained/focus on effectiveness/cost-of-sales
- Innovation maintained - new products
ASD restructure

• ASD Value Plan
• Delivered material savings in 2012
• Sales force efficiency
• Europe reorganization
  – European Process Optimization execution
European Process Optimization (EPO)

**Today**
- Multiple computer platforms running a wide variety of country-based processes
- Diverse business intelligence (BI) landscape with scattered integration & poor performance
- High support costs for legacy applications
- Limited know-how and support in a number of countries

**Planned**
- Single computer system to run all critical business processes; simplify and standardize processes
- BI solution that integrates historical business data and 3rd-party data
- Reduced inventory and improved asset efficiency
- Operating expenses management
- Centralized master data management
- Transparency of information
- Pricing management and control
- Scalable
SKU rationalization

- **Accretive to margins**
  - 20+ Product hierarchies in active and planned portfolio rationalization by Recon & Trauma

- **Focused production**
  - simplify the cost structure of support, manufacturing, logistics, and selling cost

- **Refocus to Innovation & long-term product portfolio**
  - product development process (cradle to grave) now also managing phase out
  - simplifying 50% of product lines and 50% of active SKUs
  - frees regulatory, quality, and other resources
  - rebalancing sustaining efforts
Optimize commercial model

- Commercial Model Optimization underway in all regions
  - European re-organization
  - Sales & Service model/logistics
  - US Trauma & Extremities plan
  - Compensation plans to profit
  - Cost to Serve
New products: Sports Medicine Joint Repair / Resection

HEALICOIL◊ PK Suture Anchor
- Revolutionary open-architecture design
- Significantly more thread engagement and greater pullout strength

ENDOBUTTON◊ CL Ultra 10mm Fixation Device
- Iteration on leading platform technology
- Proprietary continuous loop of suture - 90% less displacement

DYONICS◊ PLATINUM Technology Blades
- Designed to deliver best-in-class performance
- Made from an ultra-durable, wear-resistant alloy
New products: Joint Reconstruction

LEGION◊ HK Hinge Knee System
  • First-of-its-kind revision hinged knee
  • Kinematic design
  • Surgeon friendly

REDAPT◊ Revision Femoral System
  • Brings personalized patient treatments to revision hip market
  • One efficient, reproducible system for any type of hip revision

JOURNEY II◊ BCS Knee System
  • First design to achieve kinematic motion similar to a normal healthy knee
  • New design capabilities allow for expansion into a full knee system
New products: Trauma

VLP◊ FOOT Percutaneous Calcaneus Plating System

- Specifically designed for the minimally invasive percutaneous approach
- Quickly growing in popularity
- The only plating system to offer variable-angle locking technology
- Four different screw options to address differences in bone quality

PERI-LOC◊ Ankle Fusion Plating System

- Only system to offer options for the posterior approach
- A complete ankle fusion plating system that includes four anatomic plate designs
Surgeon education

New Innovation Centre – Memphis, TN, US

- Commitment to winning through education
- Multi-disciplinary facility (joint reconstruction, sports medicine and trauma) allows surgeons from different specialties and locations to share learning and innovation
- State-of-the-art amenities
  - 62,000 sq. feet of training facilities on two floors
  - Auditorium with seating capacity of 140
  - 5 conference rooms
  - 17 labs (including a 10-station lab) and 2 classrooms
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Biomaterials / materials processes

Focus on four areas:

• Next Generation Fixation
• Autologous Healing
• Bone Graft Substitutes
• Soft Tissue Regeneration

Where is Smith & Nephew headed?

• Focused orthobiologics/biomaterials-based team to provide improved patient outcomes across orthopaedics and sports medicine
• Providing products with improved wear characteristics in a more cost effective manner

What does success look like?

• Leveraging our existing strengths in biomaterials, metals and plastics
• Focusing development activity in areas most closely tied to our existing platforms
• Executing M&A/licensing to gain access to products and enhanced capabilities
• Developing marketing specialists to support the scientific sell
Patient specific logistics strategy – “Just in Time”

Admin, Hospital, Patient, Surgeon:

Simple and Efficient
- More efficient & reproducible procedure
- Fewer surgical steps/faster room turn-over/more cases per day
- Reduced need for operating room staff
- Significant reduction in instrument storage, sterilization and cleaning for the hospital
- Less skin-to-skin/recovery time

Smith & Nephew:

Well organized and profitable
- Incremental profit due to depreciation, SG&A, and obsolescence savings
- Incremental cash flow due to capital and instrument savings
- Reduction of consigned implant inventory
- Fewer reps managing cases and more selling product
LifeModeler acquisition

- The leading provider of biomechanical human body simulation tools
- LifeMOD◊ software:
  - evaluation of innovations in a virtual environment
  - faster testing and validation of ideas
  - more cost effective
- 10-year history of working together
  - developed JOURNEY◊ and JOURNEY II◊ Knee Systems
  - design and prototype next generation of orthopaedic innovations.
Trauma and Extremities

Point of Departure

Inefficient/Complex

TS Pod
Endo FL
FL Pod
FL Pod

Point of Arrival

Trauma DM

POD
TS
TS
ES

One Team, One Purpose
TRUCLEAR – well positioned in fastest growing segment of minimally invasive Gynecology

TRUCLEAR addresses a large unmet need in gynecology for minimally invasive polyp and fibroid removal (2011 US + EU)

Women suffering from symptomatic polyps & fibroids

7,400K

Addressable procedures

1,200K

$400-500M opportunity

< 50K

Hysteroscopic morcellation procedures

SNN Gynecology performance driven by TRUCLEAR Hysteroscopic Morcellation

• >50% CAGR 2009-2012
• Invented hysteroscopic morcellation
• Disrupted incumbents in hysteroscopic resection (J&J, Olympus/ACMI, Storz)
• #2 in market share behind HOLX (MyoSure)

TRUCLEAR System

(1) Hysterectomies due to fibroids, Electrical Resection of fibroids and polyps, and Other treatments
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*Smith & Nephew*

**Capital Markets Event, 28 - 30 November 2012**
Summary

• Attractive markets; Good underlying growth drivers
  - challenges/headwinds are manageable
• Re-Profile for Greater Flexibility, Consistency & Performance
  - execution on our Value plan
  - innovate
• Customer-centric actions
We are smith&nephew