SMITH & NEPHEW PLC
Form 6-K
August 05, 2010

# 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 5, 2010**

**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 __ü__ 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 __ü__

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 __ü__

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 __ü__

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 Q2 and Half Year Results Good progress across the Group**, dated August 5, 2010.

**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 5, 2010

By: /s/ Susan Henderson
Susan Henderson
Company Secretary

**Smith & Nephew Q2 and Half Year Results  Good progress across the Group**

**5 August 2010**

Smith & Nephew plc (LSE: SN, NYSE: SNN), the global medical technology business, announces its results for the second quarter ended 3 July 2010.

| | 3 months* to | | | 6 months** to | | |
|---|---|---|---|---|---|---|
| | 27 June 2009 $m | 3 July 2010 $m | Underlying change % | 27 June 2009 $m | 3 July 2010 $m | Underlying change % |
| Revenue[1] | 926 | 959 | 4 | 1,791 | 1,954 | 6 |
| Trading profit[2] | 212 | 226 | 7 | 395 | 476 | 17 |
| Operating profit[2] | 189 | 207 | | 348 | 447 | |
| Trading margin (%) | 22.9 | 23.5 | 60bps | 22.0 | 24.4 | 240bps |
| EPSA (cents)[3] | 15.4 | 17.1 | 11 | 28.5 | 36.0 | 26 |
| EPS (cents) | 13.4 | 15.4 | | 24.5 | 33.4 | |
| Business Unit revenue[1] | | | | | | |
| Orthopaedics | 531 | 535 | 1 | 1,039 | 1,101 | 4 |
| Endoscopy | 187 | 206 | 9 | 366 | 422 | 12 |
| Advanced Wound Management | 208 | 218 | 5 | 386 | 431 | 8 |

* Q2 2010 comprises 64 trading days (2009: 63 trading days).

** H1 2010 comprises 128 trading days (2009: 124 trading days)

**Q2 Commentary**

Reported revenue was $959 million, underlying growth of 4%

Reported trading profit was $226 million, up 7% underlying

Trading margin improved 60 basis points to 23.5%

EPSA increased 11% to 17.1¢

Orthopaedics: clear signs of progress in our US trauma and European businesses and a strong emerging market performance, offset by a challenging US reconstruction market

Endoscopy again achieved double digit growth in our Europe and rest of the world regions

Advanced Wound Management continued delivering above market growth

Trading profit to cash conversion ratio of 89% (2009 - 64%)

Interim dividend increased by 10% to 6.0¢

Commenting on the second quarter, David Illingworth, Chief Executive of Smith & Nephew, said:

We made good progress across the Group with an increase in Group revenues of 4%, trading profit increase of 7% and EPSA growth of 11%. Our Endoscopy and Advanced Wound Management businesses continue to show strong underlying growth. Within Orthopaedics, our US trauma and European orthopaedic businesses are showing clear signs of progress.

Our customers are facing short-term budgetary pressures and challenges and our strategy is to be part of the solution to these issues by providing products which deliver clinical benefits to patients and cost benefits to healthcare providers. The long-term industry growth drivers including demographics, emerging markets and patients desire to return to an active life remain intact.

**News**

**Analyst presentation and conference call**

An analyst presentation and conference call to discuss Smith & Nephew s second quarter results will be held at 9am GMT/4am EST today, 5 August. This will be broadcast live on the company s website and will be available on demand shortly following the close of the call at http://www.smith-nephew.com/Q210. A podcast will also be available at the same address. If interested parties are unable to connect to the web, a listen-only service is available by calling +44 (0) 20 7136 6283 in the UK or +1 (888) 935 4577 in the US. Analysts should contact Elona Hoxha on +44 (0) 20 7960 2257 or by email at elona.hoxha@smith-nephew.com for conference details.

Notes

1 Unless otherwise specified as reported , all revenue increases/decreases throughout this document are underlying increases/decreases after adjusting for the effects of currency translation. See note 3 to the financial statements for a reconciliation of these measures to results reported under IFRS.

2 A reconciliation from operating profit to trading profit is given in note 4 to the financial statements. The underlying increase in trading profit is the increase in trading profit after adjusting for the effects of currency translation.

3 Adjusted earnings per ordinary share ( EPSA ) growth is as reported, not underlying, and is stated before restructuring and rationalisation costs, acquisition related costs, amortisation and impairment of acquisition intangibles and taxation thereon. See note 2 to the financial statements.

4 All numbers given are for the quarter ended 3 July 2010 unless stated otherwise.

5 References to market growth rates are estimates generated by Smith & Nephew based on a variety of sources.

**Enquiries**

| | |
|---|---|
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**Second Quarter Results**

Smith & Nephew has made good progress across the Group this quarter. We delivered strong results in Endoscopy and Advanced Wound Management and our actions are addressing the market and operational challenges in Orthopaedics.

We generated revenues of $959 million, compared to $926 million in 2009. This represents an underlying growth of 4% on the same period last year. Currency had no net impact, despite the volatile currency movements this quarter. In addition, there was one additional trading day than in the comparative period in 2009, which added an estimated 1% to the Group s growth rate.

Trading profit in the quarter was $226 million, representing underlying growth of 7%. The Group trading margin increased by 60 basis points to 23.5%, in part due to another substantial margin improvement in our Advanced Wound Management business.

The net interest charge was $3 million.

The tax charge was at the estimated effective rate for the full year of 31.4% on profit before restructuring and rationalisation costs, acquisition related costs and amortisation of acquisition intangibles. Adjusted attributable profit of $152 million is before these items and taxation thereon.

Adjusted earnings per share increased by 11% to 17.1¢ (85.5¢ per American Depositary Share, ADS ). Basic earnings per share was 15.4¢ (77.0¢ per ADS) compared with 13.4¢ (67.0¢ per ADS) in 2009.

Trading cash flow (defined as cash generated from operations less capital expenditure but before acquisition related costs and restructuring and rationalisation costs) was $202 million in the quarter reflecting a trading profit to cash conversion ratio of 89%, compared with 64% a year ago. This continued improvement partly reflects our focus on tighter inventory management.

Net debt decreased in the quarter to $720 million.

A first interim dividend of 6.0¢ per share (30.0¢ per ADS) will be paid on 2 November 2010 to shareholders on the register at the close of business on 15 October 2010. This represents a 10% increase on the 2009 first interim dividend.

**Orthopaedics**

Orthopaedics (consisting of Reconstruction, Trauma and Clinical Therapies) grew revenues by 1% in the quarter to $535 million. Geographically, Orthopaedics revenue fell 1% in the US, grew 1% in Europe and grew 5% in the rest of the world. In the rest of the world our strong emerging markets performance was tempered by the bi-annual reimbursement reductions in Japan.

We are assuming that healthcare budgets globally will remain challenging for the foreseeable future. During the quarter, like-for-like pricing pressure increased slightly to around 2%. This was partially offset by mix benefits, which remain available for new products which provide genuine clinical benefit for patients and cost benefit for healthcare providers.

Orthopaedic Reconstruction revenues grew by 2%. We estimate that the global market grew in the second quarter at 4%, which was slower than the rates of 6-7% seen in late 2009 and early 2010. In the US, revenue was unchanged and in Europe revenue growth was 3%. We saw further signs that our actions have improved the performance of this business to around the market growth rate in Europe. We continue to see good growth from emerging markets.

Our global hip franchise growth was flat, reflecting weaker sales from our BIRMINGHAM HIP[à] Resurfacing System (BHR[à]). BHR has outstanding survivorship and metallurgy data and we believe that our active programme of support for this product, both with surgeons and patients, will be effective. Our other hip products continue to grow at above the market rate in aggregate.

Global knees grew by 3%, with the LEGIONà Knee System continuing to deliver strong growth, with volumes supported by some substitution from higher specification products. We are confident that the increasing acceptance of VISIONAIREà Patient Matched Instrumentation sets, and the 30-year wear claim for our VERILASTà bearing technology for knee replacement, will drive future growth.

Orthopaedic Trauma revenues grew by 2% to $106 million compared to an estimated worldwide market growth of 7%. We believe that the actions we have taken to enhance our US trauma sales force are now showing clear signs of improving our performance. Our new TRIGENà SURESHOTà Distal Targeting System for screw placement is being evaluated at numerous trauma centres worldwide and is receiving positive feedback.

Clinical Therapies revenues were $57 million, compared to $61 million in the comparable period, with a resilient performance from our product franchises. The sale and termination of our pain management and spine businesses, announced last quarter, decreased overall Orthopaedics revenue growth by approximately 1%.

Orthopaedics improved its trading profit margin by 20 basis points to 24.6%.

**Endoscopy**

Endoscopy revenues grew 9% to $206 million.

Geographically, the broad trends seen in the first quarter of 2010 continued: US revenue grew by 2%, Europe grew by 10% and the rest of the world grew by 22%, with a very strong performance in Japan and the emerging markets.

By business segment, Arthroscopy (sports medicine) grew by 11%, driven by another strong performance in our repair and resection franchises, which benefited from recent product launches. Visualisation reported revenues were similar to the comparable period.

New products launched this quarter included expansion of the TWINFIXà Ultra Suture Anchor range for shoulder repair and in knee repair we launched BIOSUREà SYNC Tibial Fixation Device, a specialised device to secure soft tissue grafts to the tibia during ACL reconstruction.

The trading profit margin for Endoscopy was 22.9%, a modest increase on the prior year as we continue to invest in our sales teams and accelerate new product development.

**Advanced Wound Management**

Advanced Wound Management grew revenues by 5% to $218 million, outperforming the estimated global market rate of 4%. The business has achieved at or above the market growth rates for the last nine quarters.

We grew revenues in all geographic regions. European revenues grew by 4%, despite lower sales in Germany, one of our largest markets, which were reduced due to the timing of price increases, as previously highlighted. US revenues grew by 7% and the rest of the world by 7%.

Our Infection Management product range revenues grew by 7% and Exudate Management revenues were consistent with the comparable period. Both segments were negatively impacted by the timing of the German price increases.

Negative Pressure Wound Therapy ( NPWT ) continues to progress well and we are very confident about the future of this therapy area. Patent litigation continues in several jurisdictions.

Advanced Wound Management reported a trading margin improvement of 230 basis points to 21.4%, reflecting the ongoing efficiency programmes, while absorbing higher than planned NPWT related legal expenses.

**Half Year Results**

For the half year, reported revenues were $1,954 million, with underlying growth at 6% compared to the same period last year.

Reported trading profit for the year to date was up 17% on an underlying basis to $476 million, with trading margin improving by 240 basis points to 24.4%. The settlement with the vendors of BlueSky Medical Group Inc, which occurred in the first quarter of 2010, increased the half year Group trading profit margin by approximately 130 basis points.

The net interest charge was $7 million. The tax charge of $140 million reflects the estimated effective rate for the year of 31.4%. Adjusted attributable profit was $319 million and attributable profit was $296 million.

EPSA rose by 26% to 36.0¢ (180.0¢ per ADS). Reported basic earnings per share was 33.4¢ (167.0¢ per ADS).

Trading cash flow was $390 million compared with $263 million a year ago. This is a trading profit to cash conversion ratio of 82% compared with 67% a year ago.

**Outlook**

We continue to make good progress across the Group and the long-term industry growth drivers - including demographics, emerging markets and patients desire to return to an active life - remain intact.

In the second half, we expect our Orthopaedic Reconstruction and Trauma businesses to benefit progressively from recent new product introductions and strong clinical data. We are making the necessary investments to drive these initiatives and continue to focus on improving our operational performance.

In Endoscopy we expect to grow ahead of the market in arthroscopy.

We believe that Advanced Wound Management will continue to grow at above the market rate, driven by our investment in the high growth segments of NPWT, Exudate Management and Infection Management.

In the second half of the year we have four less trading days, all of which fall in the final quarter.

The current market environment offers many challenges and opportunities for our businesses. We are meeting these with our strategic priorities of focusing on our customers and investing for growth by driving efficiencies in our operations.

**About Us**

Smith & Nephew is a global medical technology business with global leadership positions in Orthopaedics, including Reconstruction, Trauma and Clinical Therapies; Sports Medicine; and Advanced Wound Management.

Smith & Nephew is dedicated to helping improve people s lives. The Company prides itself on the strength of its relationships with its surgeons and professional healthcare customers, with whom its name is synonymous with high standards of performance, innovation and trust. The Company s products are sold in over 90 countries worldwide. Annual sales in 2009 were nearly $3.8 billion.

**Forward-Looking Statements**

*This press release contains certain forward-looking statements within the meaning of the US Private Securities Litigation Reform Act of 1995. In particular, statements regarding expected revenue growth and trading margins discussed under Outlook are forward-looking statements as are discussions of our product pipeline. These statements, as well as the phrases aim , plan , intend , anticipate , well-placed , believe , estimate , expect , target , consider and similar expressions, are generally intended to identify forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties and other important factors (including, but not limited to, the outcome of litigation, claims and regulatory approvals) that could cause the actual results, performance or achievements of Smith & Nephew, or industry results, to differ materially from any future results, performance or achievements expressed or implied by such forward-looking statements. 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 20F, for a discussion of certain of these factors.*

*All forward-looking statements in this press release are based on information available to Smith & Nephew as of the date hereof. All written or oral forward-looking statements attributable to Smith & Nephew or any person acting on behalf of Smith & Nephew are expressly qualified in their entirety by the foregoing. Smith & Nephew does not undertake any obligation to update or revise any forward-looking statement contained herein to reflect any change in Smith & Nephew s expectation with regard thereto or any change in events, conditions or circumstances on which any such statement is based.*

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

**SMITH & NEPHEW plc**

**2010 QUARTER TWO AND HALF YEAR RESULTS**

**Unaudited Group Income Statement for the 3 months and 6 months to 3 July 2010**

| 3 Months 2009 $m | 3 Months 2010 $m | | Notes | 6 Months 2010 $m | 6 Months 2009 $m |
|---|---|---|---|---|---|
| 926 | 959 | **Revenue** | 3 | 1,954 | 1,791 |
| (251) | (245) | Cost of goods sold | | (501) | (483) |
| 675 | 714 | Gross profit | | 1,453 | 1,308 |
| (451) | (468) | Selling, general and administrative expenses | | (932) | (892) |
| (35) | (39) | Research and development expenses | | (74) | (68) |
| 189 | 207 | **Operating profit** | 4 | 447 | 348 |
| 1 | | Interest receivable | | 1 | 1 |
| (12) | (3) | Interest payable | | (8) | (22) |
| (3) | (2) | Other finance costs | | (4) | (6) |
| 1 | | Share of results of associates | | | 1 |
| 176 | 202 | **Profit before taxation** | | 436 | 322 |
| (58) | (65) | Taxation | 8 | (140) | (106) |
| 118 | 137 | **Attributable profit** (A) | | 296 | 216 |
| | | **Earnings per share** (A) | 2 | | |
| 13.4¢ | 15.4¢ | Basic | | 33.4¢ | 24.5¢ |
| 13.3¢ | 15.4¢ | Diluted | | 33.2¢ | 24.4¢ |

**Unaudited Group Statement of Comprehensive Income for the 3 months and 6 months to 3 July 2010**

| 3 Months 2009 $m | 3 Months 2010 $m | | 6 Months 2010 $m | 6 Months 2009 $m |
|---|---|---|---|---|
| 118 | 137 | **Attributable profit** | 296 | 216 |
| | | Other comprehensive income: | | |
| 71 | (30) | Translation adjustments | (71) | 31 |
| (4) | 10 | Net gains/(losses) on cash flow hedges | 16 | (10) |
| (42) | (55) | Actuarial losses on defined benefit pension plans | (71) | (2) |
| 20 | 18 | Taxation on items taken directly to equity | 20 | 5 |
| 45 | (57) | **Other comprehensive (expense)/income for the period, net of tax** | (106) | 24 |
| 163 | 80 | **Total comprehensive income for the period (A)** | 190 | 240 |

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

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**SMITH & NEPHEW plc**

**2010 QUARTER TWO AND HALF YEAR RESULTS (continued)**

**Unaudited Group Balance Sheet as at 3 July 2010**

| **31 Dec 2009 $m** | | **3 July 2010 $m** | **27 June 2009 $m** |
|---|---|---|---|
| | **ASSETS** | | |
| | **Non-current assets** | | |
| 753 | Property, plant and equipment | 749 | 737 |
| 1,093 | Goodwill | 1,045 | 1,083 |
| 412 | Intangible assets | 392 | 387 |
| 7 | Other financial assets | 26 | 7 |
| 13 | Investment in associates | 12 | 13 |
| 202 | Deferred tax assets | 209 | 199 |
| 2,480 | | 2,433 | 2,426 |
| | **Current assets** | | |
| 933 | Inventories | 906 | 971 |
| 946 | Trade and other receivables | 884 | 964 |
| 192 | Cash and bank | 360 | 156 |
| 2,071 | | 2,150 | 2,091 |
| 14 | Assets held for sale | | |
| 4,565 | **TOTAL ASSETS** | 4,583 | 4,517 |
| | **EQUITY AND LIABILITIES** | | |
| | **Equity attributable to equity holders of the parent:** | | |
| 190 | Share capital | 190 | 190 |
| 382 | Share premium | 390 | 376 |
| (794) | Treasury shares | (786) | (815) |
| 63 | Other reserves | 8 | |