Smith+Nephew First Quarter Results 2022

Thursday, 28th April 2022

Introduction

Deepak Nath

Chief Executive Officer, Smith & Nephew

Welcome

Thank you. Good morning, and welcome to the Smith & Nephew First Quarter Call. I am delighted to be speaking to you for the first time as Chief Executive Officer. I have been in my post for less than a month, so these good results belong to the rest of the team.

In a moment, I will hand over to our Chief Financial Officer, Anne-Francoise Nesmes. She will present the detail of the quarter and also take your questions at the end. Before that though, I would like to share a few thoughts on why I have taken the role, what I have been working on so far and what I am at Smith & Nephew to do.

Priorities and goals

Firstly, why Smith & Nephew? When I looked at the company from the outside, there were many things that attracted me. There is the reputation and history and also the strong culture and technology. The shared purpose of Life Unlimited resonates deeply with me.

I have spent most of my career in healthcare, and the focus on enabling the best possible outcomes for patients has been at the heart of my work. I also have a real passion for technology and science. I am excited by the prospect of driving still more innovation with the team and delivering more value to patients and shareholders.

What I have been doing? My first month has been primarily learning about the company. In my first two weeks, I was in:

- Memphis, at our largest orthopaedics manufacturing facility;
- Our Advanced Wound Management Centre in Fort Worth;
- Our Robotics Centre in Pittsburgh; and of course,
- Our global headquarters here in the UK.

I have been meeting colleagues and customers, seeing our manufacturing and distribution network for myself and getting my hands on the technology.

There is still more to see to build up the picture of where we have opportunities and challenges. I will be able to say more about my immediate priorities when we get to our first half results.

Third is what I came here to do. Smith & Nephew has set out a clear strategy for growth with medium-term financial commitments, which I fully embrace.

- Strengthening the foundations like our supply chain;
- Accelerating growth profitably with how we target resources; and
- Transforming long-term growth with innovation and acquisitions.

These are the right components. Now it is time to get them done at pace.

My role is to bring out the best in Smith & Nephew and deliver on the targets of consistent 4% to 6% organic revenue growth by 2024, with a trading margin at or above 21%.

For today, I am pleased to see a good start to 2022. To take you through the detail of that, I will hand over to Anne-Francoise.

Financial Review

Anne-Francoise Nesmes

Chief Financial Officer, Smith & Nephew

Welcome

Thank you, Deepak. Once again, welcome. Welcome to Smith & Nephew, and I very much look forward to working with you.

Key messages

Moving to the business of the day, I know it is a busy day of results for you all today. Being respectful of your time, we will keep the call to 45 minutes.

First, I would like to highlight some encouraging trends in the quarter that I will explain in more detail shortly. Two of our three franchises, Sports Medicine and ENT and Advanced Wound Management, are continuing to perform well with recent launches increasingly contributing to growth.

We are also strengthening the base in orthopaedics with the rollout of the cementless knee offering in the US. We have seen an improvement across elective procedure categories as the effects of the Omicron wave diminished in the US and Europe, and particularly in areas that had previously been slower to recover like knees and ENT.

As Deepak mentioned, the growth in the first quarter is a good start towards our 2022 targets.

Q1 2022: Growth across regions and franchises

$1,306m, +3.3% reported, +5.9% underlying

Moving to the detail. Group revenue was $1.3 billion in the quarter, with 5.9% underlying growth and a 3.3% reported growth. All regions and franchises grew over the first quarter of 2021.

Looking by geography, our established markets businesses recovered strongly from the impact of COVID wave at the start of the year. In the US, infections fell quickly from the peak in mid-January. Unless procedures volume recovered, our business accelerated through February and into March, growing 3.1% for the quarter as a whole.

Other Established Markets grew 5.9%, mainly driven by Europe, with the UK and Southern Europe rebounding strongly. Europe, as you know, had been slower to recover from the impact of COVID on procedures, but revenue is now approaching pre-COVID levels again.

Emerging Markets revenue grew 14.3%. Within that, China saw a return of COVID outbreaks and local lockdowns in some cities late in the quarter. While our China business still grew, with delays to the implementation of the hip and knee VBP tender more than offsetting the COVID headwind. Our expectation is for the rollout of VBP in Q2, and we have seen the first provinces going live.

The Emerging Markets, excluding China, continued to recover, with strong double-digit growth across India, the Middle East and Africa and Latin America.

By franchise:

- Orthopaedics returned to growth at 2.6%;
- Sports Medicine & ENT grew 8.6%; and
- Advanced Wound Management grew 8%.

Orthopaedics

$541m: +0.3% reported, +2.6% underlying

I will now cover in detail each franchise, starting with Orthopaedics on slide six. Our knee business rebounded strongly, driven by recovering primarily knee replacement volumes, with evidence of postponed procedures returning. The small decline for hips reflects a strong comparator in Q1 2021 and also a market that had been more resilient in knees throughout the pandemic.

Rolling out LEGION CONCELOC cementless knee is a key project for this year, as you know. Cementless is performing well in term of cases and set deployment, and surgeon feedback around procedure speed and quality of fixation has been excellent.

Other Reconstruction fell 19%, also largely reflecting a strong quarter one 2021. Trauma & Extremities declined 3.8%, with varying performance by region and category.

Looking forward, we have continued to develop our offering, with 510(k) clearance of cementless knee software on our robotics platform achieved in April, and this will be available to CORI customers as a software upgrade, and we are now preparing for the launch.

Sports Medicine & ENT

$396m: +6.1% reported, +8.6% underlying

We saw another strong performance from the Sports Medicine & ENT franchise, as shown on slide 7.

On Sport Medicine, I would like to call out two trends. Firstly, there is a strong recovery in the knee repair market. This was one of the areas most impacted by COVID and is now benefiting more as established markets return to normal levels of physical activity. The contribution of recent launches is also increasingly important. FAST-FIX FLEX, WEREWOLF, FASTSEAL and HEALICOIL Knotless are continuing to grow strongly and are making a meaningful contribution to the overall Sports Medicine growth rate.

Arthroscopic Enabling Technologies was a mixed picture this quarter. We included growth in some areas like fluid management and video, but softer quarter in COBLATION and patient positioning.

ENT grew more than 20% as case volumes continued to recover in nose and throat procedures, along with ongoing surgeon wins.

Advanced Would Management

$369m: +5.1% reported, +8.0% underlying

Moving to slide eight, Advanced Wound management growth was broad-based, with consistent strong performance across the segment and region.

Advanced Wound Care was particularly strong in Europe with double-digit growth in the region. By category, global growth was driven by leading portfolio as well as film dressings, which are more associated with surgical procedure volumes.

Bioactives included another good quarter for SANTYL, with improvement in the long-term care channel, adding to the better execution of the recent quarters. Skin substitutes improved as the quarter progressed. As you know, clinical evidence is an important part of our strategy in Wound. We have added further differentiation, with data published in March showing that compared to leading competitors, our product GRAFIX halved recurrence rate for diabetic foot ulcers, one of the major categories of chronic wounds.

Finally, Advanced Wound Devices grew 18.6%, again, driven by both PICO and RENASYS in Negative Pressure Wound Therapy.

Advancing our Strategy for Growth

As indicated by Deepak earlier, advancing our strategy for growth remains our focus. Slide nine shows example of our good progress this year on each of our value builders.

For instance, on productivity, we have implemented a new go-to-market model for orthopaedics in China. We started work on our portfolio simplification initiatives, and we are making progress improving our supply chain. On commercial execution, we focused on launching flawlessly and at scale. The LEGION CONCELOC rollout is underway. We are preparing for other key launches later in the year, including the next-generation shoulder and Negative Pressure Wound Therapy products.

We have also started the delivery of our key innovation projects for 2022, with clearances for the RI.HIP Modeller, which is our advanced planning software for hip surgery, and for cementless knee indication for robotic-assisted surgery on CORI. Of course, M&A has continued with our acquisition of Engage Surgical in January, bringing the only cementless partial knee system commercially available in the US into Smith & Nephew.

2022 outlook unchanged

I will now finish with our guidance for 2022, which is unchanged. We continue to target underlying revenue growth of 4% to 5%, and trading margin expansion of around 50 basis points. 5.9% underlying growth in the first quarter is a good start, even if it is just one starter, and there is still work to do towards the full year goal.

You will see that the range implies average daily sales continuing to build throughout the year, based in line with our assumption, the volumes not being materially constrained by COVID outbreaks for the rest of 2022. It is also consistent with the improvements in orthopaedic momentum that we expect as the year progresses, including offsetting the headwind of VBP from the second quarter onwards.

On the trading margin, I know inflation is an important topic in the market. As a reminder, it is one of the headwinds included in the full year guidance. Clearly, there is still volatility around various components and raw materials. However, the view of the headwinds we gave in February was based on the range of assumptions, which we continue to manage.

With that, I will hand back to Deepak.

Conclusion

Deepak Nath

Chief Executive, Smith & Nephew

Thank you, Anne-Francoise. It is good to see the positive start to the year. We are making progress on the strategy. The environment is moving closer to normal, whether you look at elective procedures coming back or a return to a well-attended AAOS in March.

For myself, I am enjoying getting into the details of the business. I heard a lot from the outside about the quality of Smith & Nephew's technology. It is that, together with the strength of our talent, that has really stood out in our first few weeks.

I am starting to build up a picture of how we can drive greater performance and value. I am looking forward to discussing this more in due course and meeting you all in person.

Now we can move to your questions with Anne-Francoise taking the lead.

Q&A

Patrick Wood (Bank of America): I will keep it to one, given the time. Just curious, you talked a little bit about the sequential growth through the quarter. It sounds like certainly for North America, you saw a sequential acceleration, particularly in February and March. Was that also the case in EM? I know China has its own specific component. However, maybe ex-China, EM in general and EMEA, do you see a sequential improvement as the quarter went on?

Anne-Francoise Nesmes: Good morning, Patrick. Thanks for the question. Clearly, the growth improved in the quarter for two factors. One, as we were coming out of the Omicron impact, we saw the US recovering, I guess, from late January into February. Europe, a little bit later. Then in terms of the other markets, it really depended.

I mentioned in the presentation that China was impacted later in the quarter. Shanghai and a few other cities came into lockdown. That will be hard to predict, as you know, how that wave will evolve. Certainly, we had a strong performance in India and in Middle East, Africa.

We had seen a little bit of impact earlier as well in A & Z. Throughout the quarter, I would say the performance was improving. It reflects both the lessening impact of COVID. As we have mentioned before, the fact the hospital have adapted their procedures, and therefore, we do see the return of elective surgeries.

Hassan Al-Wakeel (Barclays): I have two, please. Firstly, if I can ask you, Deepak. First, thanks for your comments, and I look forward to your update in the first half. I wonder if I can ask for your initial impressions of the business since you have joined, where you think

Smith & Nephew performs well? Where there is upside? What's really needed to drive an acceleration in the top line at a very high level over the medium term? Secondly, Anne-Francoise, on guidance. Clearly, a very strong start to the year. I wonder if you could walk me through the puts and takes when thinking about the full year guidance range and whether the expectation of growth momentum building over the course of the year still stands.

Deepak Nath: Thank you, Hassan, for the questions. I will go first. I am a little less than a month in, so I am still making my way around the company, informing our views as you can imagine.

What I would note is, as I look at the opportunities before us and compared to the challenges that we faced, I am struck by the fact that we have far more opportunities than we do challenges.

The first observation I had was really I was struck by the energy and optimism of the team. Admittedly, it has been a few challenging years, and I expect it to be met with some weariness. It was actually quite the opposite. What I found where teams were super energised and poised to deliver.

The other thing was, I was struck by the strength of our portfolio and innovation. I heard that articulated by the company prior to joining. As I have had a chance to engage with our products and to see firsthand the innovation that is encompassing the products and what I see in terms of our near-term pipeline, I was super impressed by what I saw.

For example, I spent time in our Pittsburgh facility, our Centre of Excellence in robotics. I was really struck by the energy of the team, the spirit of innovation that is housed there and really the mindset that we have. I think we have an opportunity to better communicate that to our customers and to other stakeholders as well.

The third area really was around talent. Many of the folks that I met, a couple of levels deeper into the organisation, have joined us in the last two years or so. They have notably joined us from larger competitors and really from other leading companies. The fact that we have been able to attract talent into our company based on our reputation, our culture and our products, I think, bodes well. I am excited to be a part of it.

We delivered a strategy or communicated strategy back in December. I fully, month in, embraced that strategy. My focus really is on driving performance and driving execution against that strategy to deliver on our mid-term commitment. 4% to 6% underlying consistent growth and at or above 21% margin by 2024.

Anne-Francoise Nesmes: I guess that is a good segue talking about performance to pick up on Hassan's question on the guidance. Good morning, Hassan. It is a pity we are not able to make in December the roundtable we had for analysts. I hope we will get to meet face-to-face here in 2022.

Clearly, on the guidance, one quarter is not enough to change the full year picture, and you would expect me to say that. Clearly, we are confirming our guidance today. Whilst the recovery from Omicron in established market was a little faster than we had expected, there are now new restrictions in China. Therefore, we do expect the impact to be neutral for the year.

Importantly is when you look at our guidance, it does assume a continuing build-up on the momentum. When we look at the numbers internally, we do see we have to increase the average daily sales throughout the rest of the year. Therefore, that assumes that volumes are not materially constrained by COVID.

As you know, there is still also headwinds to come in terms of the VBP in China, for instance, from Q2 onwards. Clearly, a good start, helping us confirm being on track for the guidance for the full year. That is at revenue level. I am sure you would want me to cover as well the margin and the guidance on the margin. Again, here we are not changing our guidance. We are continuing to expect to deliver around 50 basis point expansion. That will be driven by operating leverage from the revenue and driving efficiencies and productivity to offset the significant headwinds in terms of cost inflation and the impact of the China VBP tender.

David Adlington (JP Morgan): Sorry to focus on the negatives. Maybe we could just give a bit more colour in terms of what was happening in terms of both trauma, where I will expect to see more of a recovery in that business as the economy has recovered. Also AET, well, I think you called out COBLATION and patient positioning has been particular headwinds. Just a bit of colour on that would be useful. Then just a follow-up on pricing. I just wondered if you could give your latest update in terms of where you are in terms of pricing given the cost inflation environment?

Anne-Francoise Nesmes: You are indeed picky, David. We are very pleased with our progress in the quarter. You are picking on two important points. AET was clearly slow in the quarter. It is a mixed picture because we had a strong quarter in areas like fluid management and video, but a softer quarter in core COBLATION and patients positioning.

What we have seen is a strong recovery in knee repair procedures in particular. Therefore, procedure volume should help AET as we progress through the year.

On trauma, again, it is a bit of a mixed picture. The performance has been varied by region and categories. There is a number of factors that have contributed to the slower quarter. Again, as we look forward, we are continuing to integrate the extremities business. Integra, that is almost finished. Therefore, we are looking forward to launching the next-generation shoulder later in the year.

Then on pricing, I mean, clearly, it is an important area to focus on. Many of us have not worked in an inflationary environment. Traditionally, our industry, as you know, has seen more price erosion. We need to change that. We are very focused on understanding what cost, what activities we can pass on.

Now, as you know, and you have heard us say, we cannot pass on 100% of the price inflation or the cost input inflation that we see. We are active where we can. To give you a few examples, we have increased list prices, where we can. We have certainly added, for instance, inflation clauses in new contracts. Outside of the areas where we have long-term contracts, we have been able as well to push price increases. ENT is, for instance, a category where I would say we have had some early successes with pricing.

As I said, it is early to say by how much we will benefit at a Group level. We cannot pass from 100% of the higher cost. As we say, inflation will still be a headwind in the year. We are certainly very active and looking to mitigate where we can.

David Adlington: Maybe just as a follow-up. Was price still negative in the first quarter? do you expect it to turn positive?

Anne-Francoise Nesmes: It was in line with the historical averages.

David Adlington: Perfect. Then maybe just one quick follow-up. You have given us the FX impacts updated from the top line. Just wondered if you have any updates on the margin.

Anne-Francoise Nesmes: As you know, we do usually see the impact of FX more on the revenues and not so much on the margin. As well, we hedge for about 12 months in advance. It is neutral and not relevant to the guidance we have given for this year because 2022 is mostly hedged.

Jack Reynolds-Clark (RBC Capital Markets): I was just wondering how much has growth in ASC has contributed to growth in the quarter? I mean, I guess the commentary from elsewhere has been quite a positive driver. Have you been able to ride this wave and to obtain market share?

Anne-Francoise Nesmes: Good morning, Jack. I mean, clearly, ASC is an area of growth. We have seen, with COVID, the acceleration in terms of the move to ASC. Now we are not going to comment specifically in the quarter because I think it is about the trend. For us, ASC has always been important.

We have seen in terms of the joint replacement procedures, it is in the low double-digit. The growth has been in the low double-digit. That has continued to double over the year. As you know, in ASC, the proportion of procedures is higher in knees and/or in hips. For us, certainly, in Sports, about 40% of our procedures are taking place in ASC.

It is hard to quantify, and we have not quantified what is our target to-date, neither the peers. Clearly, we would believe that the ASC shares in joint replacement is similar to our overall shares. Importantly, as well, what I would add to that is the cementless knee is important in the ASC setting. You know it is a slow up for a procedure time, a lower risk for the patient. Therefore, it is a real opportunity in the ASC setting.

Jack Reynolds-Clark: Okay. Then I guess just one quick other one, if I can squeeze it in. How are you seeing staffing shortages that develops in the industry?

Anne-Francoise Nesmes: That is a good question, and not that the other one was a bad question. Sorry, Jack. Clearly, that has been a topical issue in many markets, but I would say more in the US, where the US has seen a shortage of staffing and nurses. Now that is a pre-COVID trend. Whilst COVID has accelerated the trend of nurses deciding to retire or move on and also staff was taken as well, particularly in December, there was a longer-term trend pre-COVID in the US, where it was becoming harder to train, recruit and retain nursing staff.

Hospitals are adapting. They are using, as we have discussed before, what they call travelling nurses. They are doing what they can to mitigate. That remains the constraint on hospitals in the US, because even once you are fully staffed, you need the time for the team to get together and work at speed and at quality as well, of course, in a hospital setting. That remains a feature of the industry, and something that the hospitals need to work through.

Veronika Dubajova (Goldman Sachs): I will keep it to two, please. One, just want to follow-up on some of the pricing conversation, Anne-Francoise. I am just curious if you are seeing any signs of accelerating pricing pressure at all within hips and knees. I think the more we speak to hospitals, they are obviously facing some pretty difficult environment. Financially, you touched upon some of the higher wage growth. We are increasingly getting the sense that hips and knees are back on the agenda in terms of a source of cost savings. Just curious if you have noticed anything at all. Maybe just kind of related to that, in the ASC piece, whether you are starting to have conversations about ASC pricing that diverges from what the inpatient pricing looks like? That is my first question.

Then my second question is for Deepak. Apologies, but I know you said you believe and very much shared the strategy and the targets. I guess the one thing you have not touched upon is the shape of the portfolio. I think with prior management teams, that has definitely been one of the big conversations. I am just curious if you have any initial thoughts as you are spending time with the business on the shape of the current portfolio, and whether, as a newcomer into the business, that makes sense strategically for you?

Anne-Francoise Nesmes: I will take the price, Veronika. The answer is no. We have not seen additional pricing pressure on hips and knees or ASC to your question. To my previous answer, we are discussing where we can. We are managing. There has been no change to the trend yet. I do think, actually, customers, hospitals understand it is a different environment. Our commercial teams also understand it is a different environment. I think, no, we have not seen any changes at this point in time.

Deepak, your portfolio view?

Deepak Nath: Great. Veronika, it is good to speak with you again in this different context. Thanks for the question. Obviously, I am here less than a month, so it would be premature for me to comment.

I will reiterate that when the strategy was set forth in December, it was on the basis of looking at it quite thoroughly and analysing the various options. At the time, we have put forward a strategy based on those considerations and have had a chance to engage with that and assess that early on. I, as I indicated earlier, fully embrace that.

I also have indicated is I see significant opportunity with the portfolio that we do have. I think we can execute better and drive a greater level of performance with what we have got. That remains my near-term focus. I will leave it at that, Veronika.

Tom Jones (Berenberg): I have two questions. First of all, welcome to the business, Deepak. The first question is just on supply chains really. I just wondered if you could explain to what extent growth in Q1 was hampered by lack of raw material, lack of production in any sense, but also whether there was any kind of boost to revenues in any of the franchises that came from resolution of previous supply chain bottlenecks. I recall you had a bit of an issue getting hold of glue in your wound business. I just wondered if some of the European performance was a bit of a catch-up effect from resolving that particular supply chain bottleneck.

My second question is just to go back to an earlier question actually on the run rate growth. I mean I would assume January as a whole is fairly soft considering Omicron was in full flight in that particular month. To get to 6% for the quarter does imply growth was trending in the high single-digit range towards the end of the quarter. Is that the momentum you think you can carry on into and through Q2? Or is that too optimistic an assumption? It is difficult for us because the comps in Q2 are all over the place. You were down 30% in Q2 2020 and then up 30%-something in Q2 2021. The comp is not much help really. It would be interesting to get a feel for what the kind of exit rate from the quarter was in terms of revenue momentum or days per sales, however you want to phrase it?

Anne-Francoise Nesmes: Good morning, Tom. Hopefully, the revenues and the comps that are all over the place, not us. In terms of your question around supply chain, clearly, we have continued to work on supply chain and making good progress on the elements that are specific to Smith & Nephew that we can control.

The issues we have talked about before in Memphis in terms of staffing level, that is resolving. We are continuing to work on the sales operation, planning, etc. Good progress on tracking to the plans we had.

Now you also mentioned the raw material, that is more linked to global supply chain disruptions. We do continue to see disruptions in electro components or electromechanical components. The situation remains volatile and difficult to forecast.

Now, having said that, our teams are working hard to prioritise with our suppliers. We have got control towers in place, involving relationship with our top suppliers, making sure we are very agile. We do spot buys. It is clear that disruptions continue and have impacted the quarter. We have not pulled it out, because clearly the effects have been offset by other good trading. That remains a constant factor that we are working day in, day out. The factories have got to adapt all the time to make sure we respond to any disruptions we will see.

Now was there be a catch-up in Q1 from that? It is not that significant, but it is fair to say that in Europe, in EMEA, in Wound, as you point out, there is a little element of that, but which we have not quantified.

Now when you look at the growth rate by quarter and variability, so the exit rate in the quarter had improved, was slightly offset by China, but was improving in the US and EMEA, as I said earlier in the call. Our guidance assumes building momentum throughout the year in terms of the average daily sales and continuing to build momentum in the second half of the year, particularly as we launch new products.

I would also say that you have got to take into account that from Q2 onwards, you have the impact of the VBP. Finally, I would say that what should return compared to last year is the seasonality of the business, where Q3 is usually a little bit impacted in the EMEA by everybody going on holiday. Apart from that, you would expect the normal seasonality we have seen traditionally. Overall, it does mean increasing momentum and continuing to build on the good first quarter.

Tom Jones: Good. Then maybe one just follow-up question to David is on the AET business. It did seem that the capital equipment type areas of the business were perhaps a little bit weaker than the consumable type areas of the business. Is that a reflection of the pressure on hospitals that Veronika referred to? Or is that just normal quarter-on-quarter variation?

Just wondered if there is anything we should be concerned about the hospital CapEx environment.

Anne-Francoise Nesmes: No. It was actually interesting because I guess the assumption is not correct. It is not a decline in capital. It is actually consumables. When I referred to the softer quarter in COBLATION, etc., that is consumables. We are not concerned in terms of the capital aspect. As I said, new repair procedures are coming back, recovering. Therefore, we see procedure volume should help that franchise going forward for that segment.

Kyle Rose (Canaccord Genuity): I wanted to ask on the M&A landscape and the appetite for M&A. Obviously, you did the Engage Surgical deal. Congratulations on that. I am just wondering, should we expect M&A to slow down in the near term, as Deepak ramps up to speed and gets more of a sense of the business? Or is there any appetite for M&A maybe more in the near term?

Deepak Nath: Yeah, I will take that, Kyle. The strategy that we articulated included acquisitions and M&A as a key component. We have been active in that area, as you know, and we will remain active. It is a key component strategy. We do not expect there to be a change just because I have now come on board.

As I mentioned, the strategy is in place, and we are focused on executing against all elements of that strategy, and that includes the acquisition piece.

Kyle Rose: Great. Then just one follow-up is just, can you remind us of the timing of when we should see the cementless knee in the Engage Surgical on CORI, at least with respect to the United States markets?

Deepak Nath: WE are in the process of rolling that out, as you know. Getting the indication, we are looking at 2023. We will get back to you in terms of the quarter. Right now, we are targeting 2023.

Oliver Metzger (ODDO BHF): Two questions from my side. One is on Sports Medicine Joint Repair. You talked about procedural recovery in knee repair. Just to understand the dynamics, do you see an overall recovery of contact sports-related injuries? Or was this strong year-on-year momentum driven more by, let us say, now we saw ski season, which basically did not take place the year before, at least in Europe? Second question is on Advanced Wound Care. Also, Tom mentioned very impressive momentum. You mentioned Europe performing pretty well. Could you comment at which level you have seen the underlying market development in the first quarter?

Anne-Francoise Nesmes: Good morning, Oliver. In terms of the Sports Med performance in knee, we have seen a strong recovery. It is really driven by the return to normal levels of activity. The activities that did not happen in the past, that is gone. Unfortunately, or fortunately for some people did not get injured. To your example, it is really a return to sports. It is really a return of people going skiing and being prudent sometimes. That is really linked, to your point, to the return of normal levels of physical activity. I think as well in the future, more and more contribution of our new products.

On Wound in Europe, our performance was strong across the various categories, but particularly in terms of ALLEVYN. I think we have not seen all of the competitors' data, so it is a little bit hard to compare relative to our peers. We feel that the European performance was strong in the Wound franchise.

Julien Dormois (Exane BNP Paribas): Most of my questions have been answered. Could you just remind us what could be the impact of VBP on your business in the coming quarters? Because I think you provided some information in the past. Also wondering whether the actual implementation by the various provinces has led to anything surprising on your side? Or is it very much along the lines of what you expected?

Anne-Francoise Nesmes: Good morning, Julien. In terms of the VBP, by the end of the quarter, I think from memory, it was three provinces had launched. Now the rollout is continuing, as expected, in the knees and hip. As we have mentioned, we have estimated the impact of VBP to be about 60 basis points headwind on the margin. Clearly, it is a significant headwind on the revenue for ortho, but we have taken actions to mitigate in terms of our go-to-market model and the price.

We will continue to refine the estimate as we go through the year. In terms of your question, it was early days. It was towards the end of March that the provinces started implementing. We have not seen anything that surprised us. Actually, last week, Deepak and I had a call with the team in China, and they did not flag anything that would be of concern. Very much everything rolling out as expected.

Deepak Nath: Thank you all for attending our call. I appreciate your interest and engagement. I look forward to seeing you all over the coming weeks. With that, we will end the call. Thank you.

Anne-Francoise Nesmes: Thank you.

[END OF TRANSCRIPT]