

# Acquisition of Healthpoint Biotherapeutics

28 November 2012

# Forward looking statements

*This document contains certain forward-looking statements that may or may not prove accurate. For example, statements regarding expected revenue growth and trading margins, market trends and our product pipeline are forward-looking statements. Phrases such as "aim", "plan", "intend", "anticipate", "well-placed", "believe", "estimate", "expect", "target", "consider" and similar expressions are generally intended to identify forward-looking statements. Forward-looking statements involve known and unknown risks. Uncertainties and other important factors that could cause actual results to differ materially from what is expressed or implied by the statements. For Smith & Nephew, these factors include: economic and financial conditions in the markets we serve, especially those affecting health care providers, payors and customers; price levels for established and innovative medical devices; developments in medical technology; regulatory approvals, reimbursement decisions or other government actions; product defects or recalls; litigation relating to patent or other claims; legal compliance risks and related investigative, remedial or enforcement actions; strategic actions, including acquisitions and dispositions, our success in integrating acquired businesses, and disruption that may result from changes we make in our business plans or organisation to adapt to market developments; and numerous other matters that affect us or our markets, including those of a political, economic, business or competitive nature. 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.*

*Any forward-looking statement is based on information available to Smith & Nephew as of the date of the statement. All written or oral forward-looking statements attributable to Smith & Nephew are qualified by this caution. Smith & Nephew does not undertake any obligation to update or revise any forward-looking statement to reflect any change in circumstances or in Smith & Nephew's expectations.*

Olivier Bohuon  
Chief Executive Officer

# Introduction to Healthpoint Biotherapeutics

- Privately held advanced wound care company, HQ in Fort Worth, Texas
- Focused on the development and commercialisation of novel, cost-effective bioactive solutions for debridement, dermal repair and regeneration
- Portfolio of marketed products and pipeline with lead product candidate entering Phase 3 for treatment of venous leg ulcers
- Revenues of around \$190 million forecast for 2012, expected to grow in mid-teens
- Approximately 460 employees, including sales force of 215 and 70 R&D team

# Strategic rationale for the acquisition (1)

- Strategic priority to re-orient Smith & Nephew to higher growth areas
- Creates a unique wound care business with expertise in exudate and infection management, negative pressure and the bioactives field
  - bioactives is the fastest-growing segment of wound care with an estimated market size of around \$1 billion
- Revenues from Healthpoint's complementary suite of high-growth, marketed products driven by Santyl ointment
- Significant potential upside from lead product candidate HP802-247

## Strategic rationale for the acquisition (2)

- Gradual integration into our Advanced Wound Management business
  - doubles AWM's commercial scale in the US, adding a 215-strong sales force
  - brings new US-based R&D and Bioactive science capability with 70 team
- Opportunities for revenue and cost synergies
- Meets financial evaluation metrics
  - exceeds cost of capital in third full year
  - EPSA neutral in 2013 and accretive thereafter

# Roger Teasdale

President, Advanced Wound Management division

# Healthpoint's products

Bioactive therapies – highly effective, strong market access/payor coverage, wide applications and proven outcomes

## Collagenase Santyl®



- Prescription drug as the only FDA approved enzymatic debrider
- Provides continuous and active debridement of necrotic tissue and doesn't harm healthy tissue
- Broad label indicated for debriding chronic dermal ulcers and severely burned areas
- Strong evidence and broad reimbursement

## Oasis® Wound Matrix



- Leading acellular skin substitute for venous leg ulcers and diabetic foot ulcers
- A complex scaffold that provides an optimal environment for restoration of tissue structure and function
- Favourable reimbursement and strong payor coverage

## Regranex®



- Recombinant human platelet derived growth factor and the only BLA approved product for the treatment of lower extremity diabetic neuropathic ulcers
- The product will be re-launched in 2013



# Healthpoint capabilities and opportunities

- Greater presence and commercial scale in the US
  - including access to new channels and capabilities
- Compelling product portfolio
- R&D team brings significant experience in bioactive space
  - cells, enzymes, matrices and growth factors
- Complementary bioactive science platform and systematised new product development (NPD)
- Flagship product candidate HP802-247
  - cell-based therapy for treatment of venous leg ulcers
  - compelling Phase 2b clinical trial data, Phase 3 clinical trial started
- Strong additional pipeline including 2<sup>nd</sup> generation enzyme

# Integration

- Integrate Healthpoint at a measured pace
  - strong cultural alignment, focus on patient and innovation in wound care
  - maximise value from both companies
  - initial phase – sales forces remain focused on current customers
- Intent to build upon Healthpoint's strong market presence and optimise capabilities
  - HQ continues to be located in Fort Worth
  - complementary product portfolios
- Capturing cost and revenue synergies
- Continued investment in Bioactive R & D capabilities including HP802-247 development and commercialisation

Adrian Hennah  
Chief Financial Officer

# Healthpoint financials

	2010	2011	2012 forecast
	\$m	\$m	\$m
<b>Revenue</b>	<b>125</b>	<b>151</b>	<b>~190</b>
<i>Growth</i>		21%	~26%
Trading profit before R&D	25	34	
R&D	(18)	(23)	
<b>Trading profit</b>	<b>7</b>	<b>11</b>	

**Net operating assets**

**61**

# Transaction financials

- Purchase price of \$782 million in cash
  - financed from Smith & Nephew's existing cash resources and bank facilities
  - additional \$10m if completion post 31 December 2012
- Return on invested capital
  - exceeds the Group's cost of capital in the third full year
- EPSA
  - broadly neutral in 2013, accretive thereafter
  - including investment in HP802-247
- Tax efficient structure

# Synergies and integration costs

- Synergies
  - annual cost synergies of around \$20 million by 2015
  - modest medium-term revenue synergies
- Integration costs
  - around \$25 million cash costs, plus some modest non-cash costs, over first three years

# Guidance

- Revenue growth
- Cost leverage
- R&D spend
  - base level c. \$15m pa
  - HP802-247 c. \$25m pa for the next five years
  - around \$40m - \$50m pa total R&D spend in the medium term

# Sources of value

1. Growth of existing portfolio
2. Pipeline
3. R&D capability
4. Synergies
5. Tax



Olivier Bohuon  
Chief Executive Officer

# Summary

- Acquisition of Healthpoint
  - establishes strong position in bioactives
  - high growth existing product range
  - strong R&D capability and pipeline
  - creates a unique advanced wound management business
- Delivering our Strategic Priorities

# Appendices

# 2011 Cost structure

	Year ending 31 December 2011	
<i>Income statement</i>	<i>\$m</i>	<i>%</i>
Revenue	151	100
Cost of Sales	(36)	(24)
SG&A (excluding R&D)	(81)	(54)
R&D	(23)	(15)
Trading Profit	11	7

# Summary balance sheet

	31 December 2011
<b>Balance sheet</b>	<b>\$m</b>
Inventories	35
Receivables and Prepayments	27
Payables and Accruals	(37)
Property, Plant & Equipment	21
Intangible Assets	15
Net Operating Assets	61