thesharecentre:

press release

4 November 2011

Falling profit margins wound Smith & Nephew

- Smith & Nephew make amends to cut costs
- Poor orthopaedic trading margin impacts performance
- The Share Centre puts 'hold' recommendation under review

As Smith & Nephew report disappointing Q3 figures Nick Raynor, investment research analyst at The Share Centre, explains what they mean for investors.

"Smith & Nephew reported sales figures that were largely in line with expectations, with revenue increasing by 10% and underlying growth rising by 5%. However, poor margins in its orthopaedics side of the business put pressure on the company's performance. The 15.6% margin, which was short of analyst expectations, was caused by high periodic costs, adverse sales mix and the need to reduce costs to reflect market conditions.

"The company has been attempting to improve margins by cost cutting for some time however these figures have shown the cost base is still too high. Although Smith & Nephew have restructuring plans in place we doubt these will be implemented by the end of the year, which could see crippling margins impede final year results.

"Concerns remain over the US health system and with no signs of the credit crunch easing we could see Smith & Nephew's profitability fall further. The company generates a large proportion of its business from elective procedures, however as worry over employment remains people are opting to wait for the national healthcare system.

"The market reacted to these disappointing figures with the share price falling by as much as 6% in early morning trading. Following these results our current 'hold' recommendation looks weak and Smith & Nephew is now under review."

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