ConvaTec Group

2020 Annual Results

5 March 2021

Transcript

Karim Bitar: Good morning. It's a real pleasure to be with all of you today. And delighted that we'll have a chance today to review the significant progress that we've made at ConvaTec, both from a financial perspective and a strategic perspective. I'd like to share with you three observations. First, with a backdrop of COVID-19, we really were able to deliver for our customers in a reliable manner, in a consistent manner. From a financial perspective, we delivered a solid financial performance. And from a strategic advantage point, we're very much on track in driving and delivering on our strategic transformation. At this point, what I'd like to do is to pass the baton on to Frank for us to go ahead and review the financial performance of 2020.

Frank Schulkes: Thanks, Karim. And good morning. Thank you for joining us today. So let me take you through our financial results in more detail, starting with our highlights on slide four. We delivered a solid financial performance in 2020 during a year of continued investments and against a highly unexpected backdrop. Group revenue was almost $1.9 billion, increasing 3.7% on a reported basis, or 4% on a constant currency basis. This was ahead of our October guidance, principally driven by higher than anticipated demands in critical care during the second wave of the pandemic. Our adjusted operating profit fell 1.1% to $350 million, and was up about 1% in constant currency. EBIT margin was 18.5% compared to 19.4% last year. And there were quite a few moving parts behind this, which I shall cover shortly. The diluted adjust EPS rose 2.6% to 12 cents, with a $25.2 million decline in net finance cost following the refinancing last year. This was partially offset by the expected rise in the effective tax rate from 16% to 19.1% and a slightly higher average number of shares.

Frank Schulkes: We maintained our dividends at 5.7 cents and our dividend policy remains unchanged. We remain highly cash generative, generating $347 million of free cashflow, with strong cash conversion of 90%. Finally, leverage in the business has continued to come down to two times net debt to EBITDA from two and a half times last year, closing in on our target of below two times. Moving to slide five, you can see the key drivers of our 4% growth rate during 2020. The overall impact of COVID was broadly neutral, demonstrating the benefits of operating in a range of diverse, attractive markets. We saw a negative impact on our wound business, which was offset by increased demand, principally in critical care, with some additional demand in infusion care, as highlighted here on the slide. Advanced wound care revenues declined 3.8% as a result of reduced elective surgeries and restricted access during the pandemic about 110 basis points of decline was driven by the impact of the disposal of the U.S skincare product lines at the end of Q3.

Frank Schulkes: Ostomy care growth of 1.2% was broadly as expected, with about 90 basis points of revenue had been driven by plant, contract, and product rationalisation. Continence and critical care grew strongly, up 9.3%, with continued good levels of growth in continence care and 17% growth in our critical care category, given the impact of COVID driven demand for ICU products. Finally, infusion care delivered outstanding 16.7% growth in a year, principally owing to the momentum in the smart glycemic control markets, in which ConvaTec is a leading supplier with highly differentiated products. Growth was also partially driven by some stocking at the patient and distributor level. Reported revenue rose 3.7%, reflecting approximately 30 basis points of effects headwinds. Adjusting for the disposal of the U.S skincare product line, and the acquisition of South Lake Medical, revenues grew 4.2% on an organic basis.

Frank Schulkes: Wound and triple C were the categories most impacted by COVID. Our wound care business revenues were $547 million in 2020, down 3.8% on a constant currency basis. And if we exclude the impact of the skincare disposal, the business was down 2.7% on a full year basis. COVID had a significant impact on the business. And if we were to adjust for the estimated COVID impact, the underlying growth in the wound business was about 3%. You can see from the graph how COVID particularly impacted Q2, when revenues declined 13%. We then saw a rebound in Q3 with surgeries at about 85 to 90% of pre-COVID levels and an improvement in access. In Q4 this plateaued, although we saw some deterioration toward the end of the quarter. This Q4 performance was slightly better than we had estimated, and we have made a reasonable start to the first quarter.

Frank Schulkes: From a Geographic perspective, our Latin America business performed well throughout the year. And some EU countries also delivered some growth. However, we saw declines in key European markets, such as the UK, France, and Germany. North America, where we are most exposed to surgical, was negatively impacted by the reduction in elective procedures. Although this was partially offset by a slightly positive performance from the chronic business In the U.S. From a product perspective, we're pleased with how our Aquacel Ag+ Extra, and our ConvaMax launches have performed. Our continence and critical care business delivered $498 million of revenue, up 9.3% on a constant currency basis. This included a small contribution from the South Lake acquisition in October, 2019.

Frank Schulkes: Organic revenue growth was 8.7%. The key driver was significant growth in our critical care business, given increased ICU usage during the pandemic, and consequently, incremental demand for our products. Overall, critical care revenues rose 17.1%, on a constant currency basis, $252 million. There has been an elevated amount throughout the year, but the Q4 performance was better than we expected as the second wave drove higher ICU usage. We estimate that excluding the COVID impact, the underlying business grew about 3% with hospitals well stocked. Our continence business also had a strong year, up 6.2% on a constant currency basis to $347 million. HSG performed strongly, despite having to move to remote working, and continued to deliver its high touch service. While we expect some moderation in performance, our continence business should continue to deliver good growth. And the GentleCath Glide products grew strongly in 2020.

Frank Schulkes: We expect another Strong Q1 performance given ICU bed uses has remained high in the first few months of the year. Moving on to the next slide. The main growth driver for the group in 2020 was our Infusion Care business, where we delivered 16.7% growth. This was driven by strong demand for innovative infusion sets, which are a core element of the rapidly growing smart glycemic control segment of the diabetes market. In the third quarter, we experienced a significant step up in growth as we had capacity to respond to the strong demand, and address some backlog which had developed earlier in the year. Q4 was stronger than we had anticipated, with our customers seeing some continued additional stocking at the patient and distributor level. We experienced good growth in our new generation cannula insertion products known as Neria Guard or the MiniMed Mio Advance as part of Medtronic's offering.

Frank Schulkes: We have started the year strongly and expect strong underlying growth on tough comms. Our Ostomy Care business showed limited growth of 1.2% during the year, and some of this was driven by some planned contract and SKU rationalisation, which shaved about 90 basis points of growth off the business. We experienced good growth in both Latin America and key Asia Pacific markets, such as China. However, this was largely offset by continuing challenges in the U.S and in certain European markets. The COVID impact on the business was broadly neutral with the inventory building Q1 unwinding during the remainder of the year. While there has been some impact on new patient starts, the bulk of the revenues are generated from existing patients. So the overall impact has not being material.

Frank Schulkes: Although the year has started well, we don't expect much growth in the first quarter, given the tough comparatives. Moving on to slide eight. During 2020, we continue to invest in our strategic transformation to pivot to sustainable and profitable growth. As a result of the pandemic, we chose to proactively defer some investments while accelerating others. We spent $51 million in non-recurring transformation, as well as $42 million of recurring transformation. So a total of $93 million up $41 million from 2019 as part of our adjusted EBIT. In 2021, we expect the non-recurring to the client to approximately $35 million while the recurring steps up to around $75 million plus additional depreciation of about 4 million. Going forward, you should expect this figure to increase as we annualize the 2021 investment and continue to reinvest to sustainably accelerate the top line to deliver market growth. In 2020, we estimate that our transformation investments yielded approximately 75 million of gross benefits, mainly in the form of quality and operations benefits.

Frank Schulkes: It includes things like reducing waste, machinery labor efficiencies, introducing automation to some packaging lines, and procurement benefits. This incremental step up from approximately $25 million of benefits in 2019 contributed to the improvement in gross margin. Notwithstanding the decision to defer certain investments this year, the transformation remains on track. We continue to expect gross benefits of approximately 130 to $250 million in 2021 with increased contribution from commercial and innovation benefits through improve revenue growth over time. Moving on to gross margin and OPEX on slide nine. Starting on the graph on the left, our gross margin rose 50 basis points in a year to 59.5%. There was a 20 basis points affects headwind. So, if you adjust for affects, gross margin would have been 70 basis points year over year. We saw a positive impact from net productivity gains driven by the benefits of transformation initiatives, coupled with some price and mixed benefit.

Frank Schulkes: This helped to offset the usual inflation in our cost of goods sold and some charges we incurred to respond to COVID challenges in our supply chain. We also wrote off some assets as we cancelled or changed some programs following review. Moving to Opex on the right. This graph shows the breakdown of our operating expenditure, excluding the non-recurring transformation investment. And there is a slide in the back illustrating spent, including the non-recurring investment. This graph does include the recurring Opex, which increased by almost $30 million year on year. I would also like to point out that the left-hand bar shows 2019 restated as we reclassified certain commercial facing expenditures from G&A into selling and distribution in line with the industry. Our overall OPEX, excluding non-recurring transformation expense, grew to 38.4% of revenue, up 70 basis points. The largest step up was in R&D, which included an additional $9 million of MDR.

Frank Schulkes: This brings our R&D investment to 4.2% of sales. And we expect this percentage to continue to increase towards 5% or higher as we drive our strategic innovation agenda. We spend 10% on G&A, brought it in line with 2019, principally reflecting the phasing of the GBS implementation cost out and some incremental IT investments as we responded to more people working from home during the pandemic. We expect G&A, as a percentage of revenue to come down over time. As we see the benefits coming through from projects like GPS, as they are fully implemented and scaled. Our selling and distribution expenditure, although slightly higher at $459 million, was 70 basis points lower as a percentage of revenue at 24.2%. The increased transformational investment was offset by the lower travel advertising and promotional spends. And in addition to this, certain investments were deferred into 2021. Normalising for the COVID depressed costs and the deferred investment, our selling and distribution expense, as a percentage of revenue, would have been close to 26%.

Frank Schulkes: Looking forward, we intend to continue to invest in our commercial teams and capability. And you should expect this percentage figure to increase further. Moving on to slide 10. ConvaTec is a highly cash generative business, and we have made good progress leveraging the balance sheet during 2020. As you can see, we generated over $500 million of net cash from operations. Cash interest was $49 million which was lower than 2019 given last year's refinancing and lower interest rates. We paid out $55 million of cash tax, broadly in line with the P&L tax charge. You will have noticed that the effective tax rate increased in 2020 to 19.1%. This was, as anticipated, and reflects the mix of profits and changes to local tax regimes. We invested the $86 million in CapEx. And this was higher than prior years and you should expect us to continue to invest in the business as new products are introduced adding capacity, as well as gradually increasing the level of automation.

Frank Schulkes: In 2021, CapEx is expected to be between a $100 and $120 million. We paid $63 million in dividends. And you should know that the cash cost of the dividends is impacted by the level of uptake of the script dividend. We received $30 million for the disposal of the US skincare product line. And finally, the $71 million movement reflects FX movements on loans and payment of lease liabilities during the year. The net debt, at the end of the year, was $890 million. And the lease liabilities were an additional $92 million. As you can see, on this slide, we have continued to the deliver the business. Moving to the top of our target range of below two times net debt to EBITDA.

Frank Schulkes: Going forward, we expect to continue to deliver over time, although this will be impacted by the increased CapEx I just spoke of and our desire to make bolt on acquisitions in line with our strategy. The table on the right shows our debt profile. You can see that we have just under one and a half billion dollars of debt outstanding, which matures in October 2024. Approximately, 30% of the borrowing is the denominated in Euros with the remainder in dollars. As you can see, $600 million dollars is amortising and requiring regular annual repayments of the principal, which was $73 million during 2020. Our interest was 2.7% in 2020 down from 3.4% in 2019. Based on current labor rates, the interest charge is expected to be between 40 and $45 million in '21. We also have a revolving credit facility of $200 million, which is currently undrawn. And finally, let me confirm the guidance for this year.

Frank Schulkes: In 2020, we expect organic revenue growth of between 3 and 4.5%. We expect wounds to return to growth as the impact of COVID recedes will lap the soft second quarter 2020 comparatives and continue to improve our commercial execution. We wait to see how quickly access to the healthcare setting reverses to normal as this will impact the strength of recovery. We currently expect normalisation during the second half. Ostomy is expected to show similar levels of growth as 2020, as we continue to rationalise the portfolio. Triple C's growth will slow given the tough 2020 comparatives for critical care, which is expected to decline in absolute terms once COVID recedes.

Frank Schulkes: Finally, Infusion Care is expected to deliver strong underline growth driven by our differentiated infusion sets and a growing market. Although this will be on tough comparatives. Moving on to the margin guidance. We expect constant currency adjusted EBIT margin to be between 18 and 19.5%. This takes into account the usual cost inflation, price pressure, the incremental recurring transformation investments, the gradual normalisation of COVID suppressed costs, offset by the slightly lower non-recurring investments and the incremental growth transformation benefits. For modeling purposes, it's also worth noting that the currency moves in recent months means we currently phase a 70 basis points FX margin headwind first, the average of 2020. Finally at the bottom for completeness, I've set out various order pointers for the year ahead. And with that, I'll hand over to Karim.

Karim Bitar: Thank you, Frank. Really appreciate that very thorough and concise summary. And at this point, I'd really focus on the strategic aspect of our business and how we're doing there. As we think about the strategic aspect of our business, I think it's important to highlight that we've been really focused on pivoting to the sustainable and profitable growth. And that really begs the question, well, how are we going about doing that?

Karim Bitar: And fundamentally, we've taken really a two-pronged approach. The first thing that we'll talk about today is how is it that we're trying to stabilise the business and invest in the business? And the second thing is how is it that we're driving the transformation effort with a heavy, heavy focus on our FISBE strategy and how we're very much on track on executing on that FISBE strategy. These two elements lead me and lead us to frankly believe that the growth prospects for ConvaTec are positive. Let's dig in.

Karim Bitar: I think the first thing we need to do is to really highlight that the context we found ourselves in 2020, all of us, was really linked to the COVID-19 challenge. And so back in March, in essence, what we did and what I did was to form a rapid response team. We pulled together approximately 30 plus individuals, but we tried to combine both decision-making authority and expertise. And we actually had five different work streams we were focused on.

Karim Bitar: For example, we were focused on the safety and wellbeing of our employees. We were focused on the medical aspect, having the best science to guide all of our decisions. Or for example, we focused heavily on our supply chain. In fact, in the pictorial here, what you can see is that we were actually carrying out antigen testing. Already back in the fourth quarter of 2020, we were able to establish antigen testing of all of our manufacturing sites around the world.

Karim Bitar: And this is a picture of antigen testing occurring at our Deeside facility with one of our operators who works at that facility. Now you might say, well, what was the outcome? What was the benefit of driving and leading this rapid response team? And I'd say really, there were two fundamental ones. First, we were able to deliver a strong performance. In fact, the level of employee engagement at ConvaTec rose significantly. And we were able to measure this quantitatively.

Karim Bitar: Secondly, we delivered our products and services to customers on time and in a reliable manner. And lastly, as you saw from Frank's discussion, we delivered solid financial performance. Now, in addition to this strong performance, we very much were able to achieve and drive our transformation agenda. And we're very much on track. I'd like to share with you more about that here shortly.

Karim Bitar: Let's just step back beyond COVID and look at the context that we've been facing as ConvaTec. I think the first thing we need to highlight is that, in fact, the markets in which we compete in, whether that's advanced wound care, ostomy care, continence care, infusion care are all fundamentally chronic in nature. They're all large. And they're all growing anywhere between mid single digits to high single digits. So fundamentally, the markets in which we compete in are actually very attractive.

Karim Bitar: Historically, we've not been able to seize that opportunity to its full extent because we had three key obstacles or challenges. The first one was organisational complexity. The second that the company under-invested, frankly, in the area of R&D and in sales and marketing. And lastly, our capabilities in terms of execution and other key elements were not up to snuff. So the question really is, well, how are we going to seize this opportunity?

Karim Bitar: Well, the way we're doing that is to fundamentally say first we need to stabilize the business. In parallel, we need to invest in the foundation and capabilities. And thirdly, we need to accelerate the pace and strengthen our innovation pipeline, all of this once again to drive sustainable and profitable growth.

Karim Bitar: So are we doing that? Are we achieving that? Well, the first thing I'd highlight to you is that we have actually stabilised the situation. If you look at our revenue growth here, during the course of the last four years, you can see that revenues are starting to grow at four plus percent. And in fact, we've been able to sustain our operating profits at a level of approximately $350 million, despite the fact that we invested over $130 million in 2020, and a whole series of transformation initiatives focused in core areas like R&D and sales and marketing and centers of excellence. So again, we're very much tracking in terms of stabilising and investing.

Karim Bitar: But what about the entire transformation agenda? How do we approach that? Well, in 2020, the real focus was we need to have a clear direction of travel, align the entire organisation around them. So both top down and bottom up, we developed a vision which has been established and embraced by the entire organisation. We set out our FISBE strategy to focus, to innovate, to simplify, the build and execute. That's also been well embraced. We've moved to a new operating model, which I'll talk to you more about, but it's more customer centric. It's more agile, it's more accountable.

Karim Bitar: And we developed a series of new core values. All of this is leading ConvaTec to be able to go ahead and improve its execution track record, but let's actually look now at what is the vision and what is the strategy and how are we tracking on our five pillars? When you think about our vision, it's very simple. 10 words, pioneering trusted medical solutions to improve the lives we touch. There's really three concepts here that are captured.

Karim Bitar: The first one is pioneering, meaning R&D driven, innovation driven. The second one is we want to focus on medical solutions, IE we want to integrate the product with service with digital and do that in a trusted manner or high-quality manner. Why? Because we want to improve the lives of the people we touch. Consumers and people who are relying on us. We touch them emotionally, socially, and functionally. And it's a really big responsibility. But how do we bring that vision to life?

Karim Bitar: Well, the first thing we need to do is to focus. We've identified very clearly four key categories we want to compete in and 12 core markets. And that's where we need to focus our investments. Two, we want to be innovation driven. Three, we need to simplify our organisation. Four, we need to build some core capabilities. And five, we did execute with a ton of passion and zest and really make this a forte of ConvaTec. Let's see how we're doing on each one of these five pillars. What did we accomplish? And what is it that we do in 2021?

Karim Bitar: What you see here is on the area of focus, the first thing we did was from a geographic perspective, we actually exited 26 markets worldwide. Countries like Algeria, Venezuela, Kosovo, Albania. That's allowing us to focus and reduce complexity. Second, we divested our skincare business. Why did we do that? Fundamentally it wasn't core. We didn't think that we could win in that specific category.

Karim Bitar: Thirdly, we've been rationalising our product portfolio. In the area of, for example, Ostomy Care, we've embarked and started that process. We've reduced already 300 SKUs in 2020. And I anticipate that in 2021, we'll be doing a lot more of that. And then lastly, in the USA, in China, we've been increasing our investments, particularly in the commercial front, in these core markets.

Karim Bitar: In 2021, what are you going to see? We're going to continue to accelerate growth in these top 12 markets. We're going to continue to rationalize our product portfolio in areas like Ostomy Care and Advanced Wound Care. And we're also going to explore in a proactive manner, are there opportunities to partner, are there opportunities for bolt on acquisitions that can strengthen our competitive position in the categories and geographies that we're focusing on?

Karim Bitar: What I'd say to you is in terms of focus, we're very much on track. What about on the innovation front? How's that going? What I would say as we're making progress here. I think what's important to highlight is that we're increasing our investments significantly. In 2020, we invested over $80 million. I anticipate that number will continue growing.

Karim Bitar: We were able to form an entirely new function. The technology and innovation function led by a new leader, Dr. Divakar Ramakrishnan and that function reports straight into me. So it gives me straight line of sight onto our core function. And we also went ahead and opened up our Boston Innovation Center. So as we did that and set up basically new leadership and new capabilities and this new innovation center, it also says there's still a lot to be done on the R&D front.

Karim Bitar: In fact, in '21, what we're going to do is we're going to strengthen our capabilities. And when you say capabilities, what I'd highlight to you is we've identified four core capabilities.

Karim Bitar: The first one is the whole idea of human factor design and doing that across our entire portfolio, taking into account the consumer and patient right upfront in the design of our product. But at the same time, we need to ensure that design for manufacturing, a focus on quality and efficiency, how are you going to make that is taken into account upfront. There we've appointed Dr. Neal Carty, world-class engineer to drive that agenda across our entire portfolio. The area of mechatronics, where we're trying to make our products smarter, we appointed Dr. Brian Murphy to lead that effort. And again, Brian's got responsibility for our entire product portfolio, driving that. And the whole area then of clinical decision support. And how do you leverage software to do that?

Karim Bitar: So it's very clear to us that we are putting leadership in place to strengthen these capabilities. At the same time, we're going to be rolling out one single process to develop our products and to launch our products. And lastly, we're trying to go ahead and pick up the pace on advancing our pipeline. So good progress again, on the innovation front. On the simplified front, what I would tell you there is that we've simplified our organisational architecture. Historically, we had this log jam between geographies, product categories and functions. We've broken that log jam and said, we've got six global business units, which are customer centric, agile and accountable. But in addition, we're complimenting them with very strong, functional expertise, particularly in the area of R&D and the area of quality and operations.

Karim Bitar: In addition, we've been simplifying by going ahead and looking at our customer supporting activities. And we stood up GBS or global business services. We literally in a virtual setting in Lisbon added 140 people, and they've been doing a phenomenal job of taking processes, such as purchase to pay, order to cash, record to report, simplifying those processes, improving our efficiency and providing us with a better service. I would anticipate that in 2021, in fact, more activities in areas such as human resources and IT will also be handled by our global business services.

Karim Bitar: On the build front, we focus very much on strengthening our capabilities and the way we did that is we strengthened our leadership team, the appointment of leaders with deep expertise in their domains. And we stood up two very important centers of excellence. The first one was the sales force center of excellence and there we went ahead and rolled out a CRM platform, a customer relationship management platform, across all of Europe. Same platform across about 20 plus countries. And we're looking to roll out that platform in North America and in Asia and in Latin America to have consistency and standardization. But this platform then allows us to do a much better job of targeting and segmentation and frankly, driving productivity. In addition to the sales force center of excellence, we've also just created our marketing center of excellence, we've appointed a Chief Marketing Officer. That team is being built out with a heavy focus on the whole aspect of digital marketing.

Karim Bitar: So again, significant progress. The centers of excellence are being utilized by the business unit in a consistent and coherent manner. In 2021, we will strengthen our salesforce and marketing centers of excellence, but in addition, we will establish two new ones. The first one would be the area of medical education. We want to improve our ability to educate physicians and nurses in a consistent manner across the globe, and second, the whole area of quality, particularly in the area of quality and operations, whether it be a much heavier focus on the statistical quality control, statistical process control, and how do you build quality in right upfront?

Karim Bitar: What about execution? Well, on the execution again, we've made significant progress. We've embedded our transformation execution methodology under the leadership of our transformation execution leader. And the way we've done that is literally embed a methodology where we'll develop an initiative, we'll analyze the business case, we'll understand who's going to do what by when, and then we track and ensure that we're executing on these a hundred plus initiatives on a weekly basis. As an example, in the area of quality and operations, we looked at our packaging and could we reduce the packaging? Could we use different materials, less of those materials, which drives efficiency, for example, when we're doing packaging and advanced wound care and also has environmental benefits. In the area of medical education, for example, we've had initiatives to create the ConvaTec Academy of professional education, where we're training nurses and doctors virtually. In fact, we trained over 200,000 of these professionals in 2020, and we got very positive feedback.

Karim Bitar: This little diagram here tries to highlight the fact that we are recording the feedback. Was the program run on time? Was the material relevant? How satisfied were the participants? And we do this in a consistent manner. And in fact, the feedback we're getting is very, very positive. So hopefully you're getting a sense that we're driving the execution agenda. We're going to continue to embed this methodology, and we're going to expand the utilization or expand, I should say, the utilization of a training module for all of our employees, which is labeled or titled Ability 2 Execute.

Karim Bitar: So let's try to summarize at this point. Hopefully what you've gotten sense is that the strategic transformation is very much on track. We've been executing on FISBE, whether it's focusing on categories or geographies by divesting businesses, streamlining portfolios. Hopefully you've gotten a sense that we are increasing our investment in R&D, putting new leadership in place, building capabilities. Hopefully you're getting a sense that we are simplifying our business through much more customer centric business units, strong functional capabilities and quality and operations and R&D. That we're building capabilities in areas like sales and marketing. And that we really are embedding a methodology that sticks culturally on the execution front.

Karim Bitar: In addition, I would say that in 2020, our performance was definitely solid. I think you got a sense that we were able to grow our revenues, despite the pandemic challenge. We went ahead and increased our investments on the strategy side for the transformation and we sustained our profits. And from a financial perspective, I think it's important again to highlight, and Frank did a nice job of this, to point out that we're highly cash generative and we've continued to deliver. So you might be saying, well, what's the outlook? What's the future prospects for us? Well what I can tell you is that my level of confidence is high in terms of the growth prospects that ConvaTec has, both short-term and long-term. At this point, what I'd like to do is to move to a live session and answer any potential questions that you may have. Thank you very much.

Questions & Answers

Moderator: Thank you. If you would like to ask a question, please signal by pressing star one on your telephone keypad. If you're using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment.

Moderator: We will now take our first question from Patrick Wood from Bank of America. Please go ahead.

Patrick Wood: Perfect. Thank you very much. I'll keep it to two, please. The first question would be sort of slightly softer one, and I guess there's a lot of changes that are going on in the business overall, and a lot of these are changes that we can't plug into a spreadsheet or necessarily see from outside. So, for example, in focus, you were talking about sort of exiting markets and reducing SKUs. It'd be really helpful I think if you could help us understand how that helps you guys internally. Has it changed from when you first arrived, the amount of time you were spending on some of those issues? Have you found that your time, for example, has been freed up? That it's enabled you to do other things?

Patrick Wood: I mean, if you've got any examples to help us get a tangible sense of how that's helping the business, that would be great. That'd be the first question.

Patrick Wood: And just quickly on the second one, appreciate it's always difficult to comment on these kinds of things, but perhaps you could help the investors understand the materiality potentially or otherwise of your contract with Vizient on the ostomy side and any expectations associated with that over the next call it three, six months. Thanks.

Karim Bitar: Thanks, Patrick. Appreciate both questions and I'll try to answer both. So is this Karim, and good to have everybody here live, and obviously I'm joined by Frank.

Karim Bitar: I think, look, on the focus one, how is helping? I mean, I think that it really helps us in a variety of ways, but what I would say is that it really allows us to focus our energies on the few things that really matter. I mean, that's in essence what I mean at a conceptual level, but let me give you a very practical example, right? So as you think about our R&D agenda and driving our pipeline, right? One of the important things you do is you work on product development, on process development and clinical development. We also need to work quite heavily with the regulators, right? And you can imagine that as we had our skincare business, there's a lot of work from a regulatory vantage point that we needed to manage.

Karim Bitar: As a result, now, frankly, of not having to worry about the skincare business, guess what? We can focus all of our regulatory firepower on wound care, on continence care, on infusion care, right? And on ostomy care.

Karim Bitar: And so that ability to focus those scarce resources and just have deep expertise in the areas you want to win in really helps out. You can prioritize better and frankly accelerate the pace of driving your regulatory agenda.

Karim Bitar: So that would just be one very practical example. Another practical example would be, for example, when you reduce the number of SKUs, all of a sudden the production costs, frankly, you are able to produce a narrower band of products, higher volumes. You're not having to make as many switches and changes to your lines. You don't need specialized lines. And so you start driving efficiencies and you start getting leverage frankly from an efficiency and margin perspective.

Karim Bitar: So clearly I would say there is a quite a bit of value in this focus exercise, but in essence, it lets you drive efficiency and focus your resources on what really matters, both geographically and from a product category perspective.

Karim Bitar: On the second question around Vizient, look, I think Vizient from a GPO perspective is important, right? They supply about 45% of the US market. And obviously we've had a positive and constructive and healthy collaboration with Vizient and we're clearly very, very focused on ensuring that we can sustain that healthy, constructive collaboration with Vizient. So I hope I answered both your questions.

Patrick Wood: Very clear. Thanks, guys.

Karim Bitar: Thanks, Patrick.

Moderator: We will now take our next question from Amy Walker from Peel Hunt. Please go ahead.

Karim Bitar: Hi, Amy.

Amy Walker: Hi. Hi, Karim. I got three questions, if I could. I might ask them one at a time to make it clearer. The first question, just picking up on all your very helpful comments on R&D, thank you for the high-level view on that, I think I understood Frank to say that you were expecting that spend to increase to 5% from 4%. Will that 5% level do you think be reached in 2021 already or is that more of a mid-term expectation?

Amy Walker: And then you very helpfully laid out the process and the thought process behind what you're doing, but I wondered, could you give us a bit more insights on the categories, the product categories that are the focus of that R&D effort? I saw in the release, for instance, that there was mention of investing behind foam from an innovation point of view, which I thought was a sort of relatively commoditized segments. So I'm just interested to understand what the thought process is.

Karim Bitar: Sure. Sure. So look, I think on the percentage of revenues in R&D, the way to answer that is we don't have any fixed percentage per se, and that's not what's really guiding us. What's really guiding us on the R&D front is a realization that we can do a lot better in rapidly advancing our pipeline, so reducing the cycle time and frankly launching more effectively, right?

Karim Bitar: And so if there is a really unmet need in the marketplace and there is an opportunity to drive a differentiated offering, and then frankly, to build intellectual property around that, then we're going to aggressively pursue that. So as far as specifically in 2021, I'll let Frank kind of provide with any additional input in regards to, from an absolute quantum, what might we be spending in 2021, but certainly we're going to be increasing north of the 80 million that we spent in 2020.

Karim Bitar: As far as what are we focusing these R&D investments on, fundamentally, it's really within the four categories really, Amy. So to give you an example, within the area of infusion sets, there's a tremendous opportunity, frankly, to develop an extended wear infusion set. Can you get that infusion set to last for a week? There's tremendous opportunities to frankly avoid kinking. There's a tremendous opportunity to avoid infections by using these infusion sets. And so we're investing heavily, as you can imagine, in technology-related, for example, to coatings as an example, right, in that arena.

Karim Bitar: I would say incontinence care, there's a whole compact segment which we're not actively competing in, and we need to be actively competing in. And so I think there's a real opportunity of driving that agenda.

Karim Bitar: On the foam side, I would say that it's a very large segment. It's actually the largest segment of advanced wound care. And frankly, we're not sufficiently partaking in that segment. And there is an opportunity to improve the performance of current offerings, whether that be in terms of how long does your foam actually get utilized for, in terms of the ability to absorb the amount of exudate, in terms of what kind of sheer do you apply to a chronic wound?

Karim Bitar: So, as we analyze the marketplace, frankly, we still see significant unmet needs in the marketplace and a real opportunity to drive innovation there.

Karim Bitar: Similarly with ostomy care, right? I mean, you think about ostomy care and you think about continued complaints, frankly, from consumers as to things like leakage, things like odor. How discreet is your offering?

Karim Bitar: So frankly, I could keep on going on with the entire portfolio, but I think it's fair to say that there are opportunities frankly within the categories we compete in to innovate, drive differentiation frankly, and create a stronger position on.

Amy Walker: Got it. Thank you. It sounds like it's quite diffused and quite a lot of different things rather than anything particularly concentrated.

Amy Walker: Just following on as well and staying in wound for a moment, one of the priorities I think that was mentioned in the press release is to drive the use of digital tools and platforms in customer interfaces. And it occurred to me that there must've been quite a lot of digital shift already during the course of 2020. So I wondered what more is really left to do there? How significant is that shift that's still to come? And do you still anticipate investing in traditional sales reps to beef up the wound sales and marketing efforts at some stage, and when?

Karim Bitar: Yeah, I mean, I think our basic philosophy is that we welcome and embrace the hybrid model, whether that be how we work internally, amongst colleagues, so both virtual and in-person, and we welcome and embrace the hybrid model frankly in terms of how do we interface with customers.

Karim Bitar: I think what you saw do was really pick up the virtual interactions with healthcare professionals in 2020, Amy, but I think there's going to be an opportunity frankly to further bulk up both those interactions and in-person interactions, not only with healthcare professionals, but also to try to understand with consumers or patients or the people we interact with how can we do even better on that front?

Karim Bitar: And so I think there's ample opportunity frankly to take it to the next level, and via our marketing center of excellence, we're very committed to doing that, and frankly, making significant investments on the digital IT front to support that endeavor.

Amy Walker: Great. Thank you. And then my last one was just an ostomy care. The reference to new patients starts in the acute setting being challenging. Is fixing that purely about lifting of the COVID restrictions? I guess what I'm asking is your performance or your share in that acute setting, has it weakened relative to your peers? Is that the right way to understand what you're saying there? It's just about the prevailing market conditions.

Karim Bitar: I think what I would say to be objective is we are not satisfied with the level of new patient charts that we're being able to generate in some key geographies, including the United States, in all honesty. I think that there is an opportunity for us to strengthen our commercial execution, to strengthen frankly our clinical presence as we go ahead and interact with customers in that marketplace. We have appointed new leadership. We are in the midst of frankly strengthening those capabilities. And so I would anticipate that during the course of the next 12 to 24 months, we should be seeing improved performance in some of these key geographies, including the United States.

Amy Walker: Very clear. Thank you so much.

Karim Bitar: Thanks, Amy.

Moderator: We will now take our next question from Veronika Dubajova from Goldman Sachs. Please go ahead.

Veronika Dubajova: Great, good morning, And thanks for taking my questions. I will also keep it to two please, and both bigger strategic picture ones. One, Karim, I'm curious how you're thinking about capital deployment from here. Obviously you are now getting into a fairly comfortable place from a leverage perspective. Just kind of your thoughts on incremental capital allocation from here. In particular, I'm thinking acquisitions, what might be the targets that are of interest in how much appetite you have for that right now, both on the small and the larger scale? If you can refresh us on with your thinking on that, that would be great.

Veronika Dubajova: And then two, I was intrigued to hear about your CRM rollouts, and it might be a little too early to speak to this, but you didn't give us the growth rates I don't think organically for the geographies, but I'm just curious if you can share some anecdotes in terms of has that CRM actually translated into better performance in the European business in particular in wound care and ostomy? If you can share that anecdotally to the extent that it has, that would be helpful. Thanks, guys.

Karim Bitar: Sure. Thanks, Veronika. Look, in terms of how we're deploying our capital, I would say Frank did a nice job of highlighting how we're definitely very cash generative and generate a significant amount of free cash flow. And we've been frankly reducing our debt and our leverage, but obviously by being highly cash generative that does create the opportunity, frankly, to pursue both partnerships and acquisitions.

Karim Bitar: Our basic strategy is very, very simple. What we're really focused on is to look and explore bolt-on acquisitions, but with one very single purpose, which is we've identified the 12 geographic markets we want to focus on, the four categories that we want to focus on. And if there is an opportunity, frankly, to pursue a partnership or a bolt-on acquisition that can strengthen our competitive position, then yes, we will actively go ahead and pursue that. And we've identified three types, frankly, of bolt-on acquisitions. One could be geographic in nature because it strengthens frankly our competitive position in terms of the sales and the marketing and the distribution in that specific geography, and we would want it clearly to be one of the top 12 geographies, right? Because we've said that that's where we're focused on.

Karim Bitar: It could be a technology play. It could be a play which may be strengths our pipeline, or strengthens our portfolio. And so that's clearly something that we would want to go ahead and consider.

Karim Bitar: And thirdly, and lastly, it could be a capability that would really enhance our ability to compete in the marketplace. So I would say that's our thinking right now, in terms of the M&A strategy, and if those opportunities present themselves, we've got very clear criteria as to what are the kinds of financial returns that Frank and I would expect, and so, want to ensure that we're being very, very disciplined as we consider or contemplate those kinds of opportunities.

Karim Bitar: On the second question of the CRM rollout; how's that going? And what benefits might we be seeing? I think it was fair to say is it's going well, in the sense that we are now able in a very systematic manner, to segment and target consistently our key caregivers, which we did not do historically. What I'm seeing qualitatively is that clearly the level of productivity, meaning the number of working days, the number of contacts that we make, whether virtual or in-person, is increasing. So clearly the level of commercial activities increasing, and that's frankly, an early signal as far you know shares of market, which we look at and new patients starts, I think it's premature to comment. But what I would say is that at this point, I'm cautiously optimistic, because frankly, when you start seeing these improved levels of operational activity, they do lead fundamentally to improved top line growth.

Veronica Dubajova: Okay. That's that's great. And Karim, can you talk very briefly to the longer wear infusion set that you were launching this year? How should we be thinking about that opportunity from a ConvaTec perspective? What will be the financial implications of that?

Karim Bitar: Yeah, look, I think the way to think about infusion care is that the underlying market is experiencing robust growth, and I think we've been transparent that we see that market segment, s mart by seeing control growing basically in the high single digit arena. And we anticipate that's going to continue for a while, okay? And so, what's basically happening is that as you get pumps, whether they be durable pumps or disposable pumps, they're starting to become smarter, right? So there's algorithms there to allow you to control the level of blood sugar, which is so critical to avoiding all these diabetic complications, whether it be retinopathy, neuropathy, nephropathy, microvascular ones, or the macrovascular ones.

Karim Bitar: But what's happened also is that with the advent of folks like Dexcom, they've linked now the continuous glucose monitoring. And there's a real desire to extend that because there's a lot of practicality, less need to sort of poke yourself in the same spot on multiple occasions. And so, what I would anticipate with our extended wear infusion sets is I think that that offering is clearly going to be growing in the marketplace, along with, frankly, the new innovative and differentiated infuser that Frank referred to, the Neria Guard. And so I think what that does is, frankly, the level of satisfaction that patients and consumers will have with our offering will increase. We're already to start to experience that. And frankly, with our direct customers, we're seeing them to be even more satisfied with our performance in terms of the quality of what we're offering them, how that helps them, frankly, grow and retain patients. And so, I think you're going to see more of this kind of differentiation, whether it be on the Neria Guard type infusers, or extended wear infusion sets, and you're going to continue to see a stream of these innovations come about both in diabetes, frankly, which we've historically focused on, but then also beyond diabetes and areas such as Parkinson's disease.

Veronica Dubajova: That's great. Thanks guys.

Moderator: We will now take our next question from Hassan Al-Wakeel from Barclays. Go ahead.

Karim Bitar: Hi Hassan.

Hassan Al-Wakeel: Thank you for taking my questions. Hi Karim, thank you for taking my questions. I have three please. So firstly, in the past, you've talked about 4% plus organic growth as a medium term ambition, and today it sits at the top end, or towards the top end of your guidance range for 2021. And I guess you do get some COVID headwinds reversing in 2021. How do you think about the underlying growth in the business this year, on an ex COVID basis, if that's at all possible? And how sustainable do you think this growth is in 2022? And when do you think we should get some more meaningful growth in ostomy? So that's the first question.

Hassan Al-Wakeel: The second is around the pipeline, and can you update us on where we are with some of the product iterations, both in the short term, and some of the next gen products, more medium term? You talked about leakage complaints, and related to this, can you talk about the prospect of sensing technology within ostomy, and the degree to which you think this could be reimbursed?

Hassan Al-Wakeel: And then finally on the stocking impact in critical care, what do you anticipate in Q1? And do you think this segment can grow in the first quarter, given the tough comp, and what is the overall expectation for group organic growth in Q1? Thank you.

Karim Bitar: Let's take each one. I'm going to ask Frank here to help me out, particular with your first question.

Frank Schulkes: I'm going to take first one, on the organic growth piece.

Karim Bitar: Yeah, why don't you think one and three maybe? And then I'll take number two on the pipeline. Does that work?

Frank Schulkes: Yep. That's good. So, 4% organic growth and in relation to Covid 2020, that was, I think the first part of the question. Well basically if you look at the different business units, Covid on the top line was really, roughly a wash for ConvaTec in 2021. One side, we had a clear headwind in the wound business, but we had a tailwind in critical care. Again, largely driven by the demand for ICU products. And then we also have seen, after discussions with our customers in the infusion care business, that they saw with their distributors and their patients, a stocking dynamic in 2020. So again, total top line, probably a wash. And if you click through the business units, so taking out Covid, our estimation is that the wound business on the line was probably approximately a 3% growth business in 2020. The critical care business grew 17% in total, but a lot of that was really Covid driven. So our estimation is that critical care was more or less around 3%.

Frank Schulkes: And then of course, infusion care had a couple more dynamics beyond the Covid stocking activities. We saw certain dynamics with our customers introducing new products, but also expanding geographically, which of course means certain channels are going to be filled. We added some additional capacity; you could see that in our Q3 spike where we grew way over 20%. So if you adjust for all of that, the infusion care business was probably growing mid to high single digits in 2020.

Frank Schulkes: And you had a second part to that question. Can you please remind me, Hassan?

Hassan Al-Wakeel: Yeah. So, it was around 2021, and I guess whether you think that the COVID headwinds reversing will also be a wash, and whether that potentially 4% growth could be sustainable into 2022.

Frank Schulkes: Okay. So I think, if you think about 2021, we believe, and there is a level of uncertainty around COVID, when, and how fast it will recede, but we're expecting a partial reversal, rebound in the wound base and just a partial. Our estimation is that probably there will be an impact in the first half, and then things will start to normalize in the second half. When? Tough to say at this moment. The critical care business will show negative, or will decline in 2021, given the tremendous ICU driven demand in 2020, but we don't believe it's going to decline in the first quarter, given that we still see some demand coming in, related to the second wave, but overall that will be a decline, and we believe that critical care customers are in fact very well-stocked. And then as we said, also in the presentation infusion care business, we'll see good underlying growth, but it will be against very tough comms. So it depends a little bit by business unit, how that will come back. And this is how you have to look at it, and again, for 2021, we've given, I think clear guidance between three, and four and a half percent over organic growth, and I think it's premature to talk about 2022.

Karim Bitar: Yeah, and so, what I would say is two things. I mean, one, I think you're trying to basically understand, to what degree in '22 and beyond are we going to sustain that we'd be able to achieve the four-plus top-line growth, right? And what I would just say, sort of in a nutshell is, I'm cautiously optimistic. Now, again, you've got to do this semester by semester, quarter by quarter, year by year, right? But we're very, very committed to do that, but I'll stand by the comment: cautiously optimistic, in being able to achieve four plus, beyond whatever benefit we might get from pluses or minuses on COVID in '21, I think you're trying to see through that. So that'd be my comment there.

Karim Bitar: On the pipeline, what I would say is really two things. The first one is that we are trying to drive the pipeline forward, and so when you look at advanced wound care, we're very clearly focused on launching ConvaFoam in 2022. And so that's progressing well. And so, I would anticipate that we'll have a superior or a much better performing offering in 2022 in that arena. And we're also frankly, very much on track to further refresh, and further update Avelle. On the ostomy care side, you were trying to better understand what are we currently doing. Again, I think there's opportunities to improve the current performance of our offering, and you're asking to what degree do you think, "Smart" ostomy care offerings make sense in the marketplace? I think the short answer is I think there is an opportunity there, frankly. The real challenge is to make sure that you offer a quality, and reliable offering from a smart perspective, but at the same time, it needs to be simple to use, okay? There's a customer interface where you can easily get overly complicated in that, but is there an opportunity there? Yes.

Karim Bitar: On the reimbursement front, I think difficult to say, if you can frankly get a, "Premium" for that. Right? I think if one were prudent, you would say no. And maybe in your upside scenario, you say yes, possibly, right? But I think prudence would say, don't assume that in a base case scenario.

Karim Bitar: I think on the continence care side, I would say, look focused again on the compact segment, which is growing around the world. And I think that we are in the midst of bolstering our offering both on the male side and on the female side. And I think that during the course of 2022 and 2023, you'll see that strengthened.

Karim Bitar: And then on infusion care, look, we spoke about that. We're very, very focused on the extended wear and fusion set and making sure that that's successful in the marketplace. And then frankly, further leveraging our Neria Guard platform, which is very, very well received by the marketplace. Would that be in diabetes or non-diabetes applications, and I think there's an opportunity to grow there. But overall in the pipeline, I know you guys are all very curious to better understanding of the R&D agenda, the increase investment. What's it going to look like? What I will say is that in the second half of this year, my hope and Frank's expectation is along with mine is that we'll be able to give you more visibility on that. So stay tuned, but we are making progress is what I would say.

Hassan Al-Wakeel: Thank you very much.

Frank Schulkes: Sorry. The last question you had was around quick care, and I think I answered that already in the first part, related to stocking impact.

Karim Bitar: Thanks, Hassan.

Hassan Al-Wakeel: Brilliant. Thank you.

Moderator: We will now take our next question from Michael Jüngling from Morgan Stanley. Please go ahead.

Karim Bitar: Hi, Michael.

Michael Jüngling: Morning. Thank you for taking my questions. Hello. Good morning, all. I have three questions, please. Firstly, on the investments for growth, can you comment on how your sales force investments are progressing in light of COVID-19? I think last year you didn't hire as many people as you thought you would, because I think the difficulties of interviewing them and so forth. How has the year begun? Have you been able to hire people already in the fourth quarter, and also in the first quarter of this year? If not, is that 75 million in recurring costs something that provides just short-term upside or a little bit of tailwind?

Michael Jüngling: Secondly, when it comes to the US investments, are these expected now to accelerate sales growth in your commentary? It does suggest so, but in the end are we facing here potentially a standstill, whereas you invest more money, so does Coloplast, and we end up pointing our guns at each other and no one really moves the needle compared to where we were before?

Michael Jüngling: And then thirdly, on China. On page seven, you kindly highlight of your release the investment that you've made in China. At what point does China make a difference to organic sales growth? And in the context of China, perhaps you can highlight what percentage of sales China now makes up of your total revenues for last year. Thank you.

Karim Bitar: Yeah. So, look. On the sales force investments, what I would tell you is that pretty much in-person salespeople were very much in a holding pattern until roughly the third quarter of 2020. But thereafter, frankly, things improved and we felt that it did make good sense from a customer perspective, and frankly from a return perspective, to be able to increase our presence. So we have been in hiring mode, recruiting both in places like the US and China, and frankly other geographies where we felt, again, that we needed to go ahead and strengthen our capabilities and muscle in that area.

Karim Bitar: In regards to the US investments, do I expect to accelerate growth? The short answer is, absolutely yes. I mean, at the end of the day, we need to basically get our fair share for the returns that we're making, frankly, in the R&D agenda, and frankly improve what historically were some challenges. Own goals in terms of capacity and quality, own goals maybe not in driving commercial execution in a effective and efficient manner. Right? So I think that's just good business practice, and we need to do that. And I would anticipate better performance, whether that be in continence care, or advanced wound care, or ostomy care as examples.

Karim Bitar: On China, when is trying to get to make a material difference? I'll let Frank comment explicitly, but today you know China in terms of revenues is probably less than 2% of our total revenues globally. So it's a small base, so it's not materially impacting us now. But there's significant opportunity to make it a lot more relevant to the ConvaTec story, and therefore we're making important investments. I think it's going to take some years to do that, so I wouldn't be thinking China is going to impact and dramatically drive top-line growth here in the next 12 months. But on the other hand, if you take a medium-term time horizon, it is absolutely clear that for ConvaTec to actualize its full potential, it is very important for us to compete in these top-12 geographies. In places like the US, in places like China, and places like Brazil, in places like Germany. So, I hope I answered your question.

Michael Jüngling: Yes, you did. In terms of China, let me ask you a question about the number of salespeople. I mean, if I see that you've doubled the number of people in China to 300, and if you assume that maybe 150 or so are salespeople, and they sell maybe $100,000 a year, I mean, that alone, for instance, would add about almost a percentage point to organic sales growth. Where's my calculation wrong in thinking that China could actually make a meaningful contribution to organic sales growth in 2021? What's wrong with that calculation? Why would that not be realistic?

Karim Bitar: Yeah, I understand where you're coming from. Frank, do you want to take that?

Frank Schulkes: First of all, indeed. We're starting off with a small base here, right? It's, as Karim said, less than 2%. Second, there is an assumption how much sales every sales rep will bring in. That differs. Okay? And then second, we have really been ramping up in Q4 of 2020. As you know, when you ramp up sales force, sales force is not going to be productive on day one. That will take some time. So I would say we will see increased contribution from China over time. We just need to build that critical mass, and that will take several years, because again, we're starting off with a small base.

Michael Jüngling: Great. Thank you.

Moderator: We will now take our next question from Paul Cuddon from Numis. Please go ahead.

Karim Bitar: Hi, Paul.

Paul Cuddon: Okay. Thanks, guys. I've only got one, and just on the G&A. I think a previous aspiration had been to get that down as a percentage of sales, but I'm just wondering if your thinking has changed there as to whether you need the G&A investment to support future sales and marketing initiatives.

Karim Bitar: So I'll let Frank help me out, but our view has not changed. It needs to go down. Frank, I'll let you comment.

Frank Schulkes: No. That's very clear. No, our view has not changed at all. So, we're driving several programs. One very significant one is, of course, GBS. We started executing multiple ways in 2020. We will continue to execute multiple ways. Started in finance, and as Karim mentioned, where we're creating here a platform on which we're going to scale, and I think that's very important for GBS, which means that more types of activities and functional support can be added to that platform, and by standardizing, you basically open the door to much more automation, and that gives you, again, that scalability. That means that, especially when the business grows. So let's say the business is growing and becomes 50% bigger, because you have that scalable platform in the form of, for instance, GBS, you don't have to add 60% the cost. So you get a very significant leverage, volume leverage, on that platform. So this is one of the key platforms where we're implementing here, and as Karim said, we are clearly targeting still to be in the single digits, around 7%, in the future.

Paul Cuddon: Okay. Sorry. I won't sort of dig into ConvaTec as a $3 billion revenue business just yet, but on the ostomy home services element, I just wondered, could you talk about what percentage of ostomy is going through what you would consider a true home services channel?

Frank Schulkes: You mean home services as in our Home Services Group, or overall what part of the ostomy business is community-driven?

Paul Cuddon: I think through your home services channel.

Karim Bitar: Yeah.

Frank Schulkes: Okay. So, well, we're not really disclosing that. But it is a relatively small base, but growing.

Karim Bitar: What I would just add, Paul, to that is it that the Home Services Group does a fantastic job in terms of serving consumers and patients. They've done an amazing job in the continence care area, and as you know, they frankly provide choice of a variety of different brands. And do that very, very well in a very balanced and thoughtful manner, keeping in mind what's best for patients. And they continue to be able to grow, frankly, their share and perform very, very well in the United States.

Karim Bitar: We are also leveraging the Home Service Group in the ostomy care space, and I think it's fair to say that during the course of 2020, we saw them being able do that very, very effectively. Once again, the quality of the service that they're providing to patients and to consumers is very well-received. As Frank said, it's a minority of our current ostomy care business in the United States goes by the Home Service Group, but it is a growing portion, and frankly driven by the very high level of satisfaction that patients who maybe are having to go ahead and have a stoma are experiencing by working with the HSG group or the 180 Medical group.

Paul Cuddon: Thank you very much.

Moderator: We will now take our next question from Kit Lee from Jefferies. Please go ahead.

Kit Lee: Good morning guys, and thanks for taking my questions. My first question is on your recurring investment after 2021. I'm just keen to get your thoughts just on the quantum of that. Whether you expect any more meaningful step up in recurring investment, or would the increase be quite gradual after 2021?

Kit Lee: My second question is on AWC organic growth in Q4. I think that's still declined by -1% versus PQ, but at the same time your peers did show some improvement sequentially in the wound care business. Can you just talk about some of the reasons for that difference in performance, and whether it's because of the different product makes or reason to make. Or are you seeing any kind of differences when you compare performance to your peers? Thank you.

Karim Bitar: Maybe, Frank, I'll ask you to take both questions on the recurring investment beyond '21 and AWC in Q4.

Frank Schulkes: Yeah. So our recurring investments are estimated to be about $75 million, and then we have, of course, some additional depreciation on top of that, as we've mentioned in the presentation. Given that is a ramp-up from around the low 40s to $75 million, you can expect beyond '21 a annualization of that. Because, of course, we will not, per 1/1/21, be at that 75 million. It will be a build, and therefore you will have annualization, and that means that the cost will in fact go up in 2022. Of course, after that, it's more business as usual. We will continue to invest and to reinvest to sustainably achieve the market plus growth rates that we talked about. So, that's how we have to think about the recurring.

Frank Schulkes: In terms of the wound business was -1% organically, we have seen wounds, if you normalize for COVID, underlying growing about 3%. That was also the case in Q4. Second element here, there is a little bit, and we talked it post-Q3 results as well, there's a little bit of a mixed effect within our wound businesses as well. Because we have, for instance in the US, a very high penetration in the surgical segment through our surgical cover dressings, for instance, and certain silver products. And because of electives and some more pressure that we've seen towards the end of Q4, that has seen some more challenges. While foam, in fact, is largely used more preventative, and we have a relatively small penetration in the foam business. So there is a little bit of a mixed impact in here as well, but underlying the business has been growing, our estimation, about 3%.

Kit Lee: Great. That's very helpful. Thank you.

Frank Schulkes: You're welcome.

Moderator: We will now take our next question from Ed Ridley-Day from Redburn. Please go ahead.

Ed Riley-Day: Good morning. Thank you. And thank you for the very clear commentary today. Just a couple of quick follow-ups. Firstly, on infusion care. Frank, can you just give us a little bit more colour on the level of stocking that you feel there was last year, particularly in the fourth quarter? That would be helpful. And secondly, can you also speak to what proportion of the infusion care business is now non-diabetes? Obviously, a great area of potential for you with the products you have and are developing. But if you could give us a little bit more colour about how big that is. And also, related to that, to what extent is there an opportunity to leverage your existing corporate relationships, very clearly, or actually are you potentially speaking to new corporates who you could supply?

Karim Bitar: Why don't I ask Frank to take the first two questions, level of stocking in Q4 and portion that's non-diabetes. And then how do we plan on growing our business? I'll address that.

Frank Schulkes: Okay. Yeah. So the level of stocking, it's an estimate after having discussions, of course, with our customers talking about stocking activity that they saw with their districts or so further downstream, as well as with patients. But I would say if you look at the 16, 17% growth that we have seen in 2020, that's taking the estimated stocking out. We believe that the growth was in the low teens. And then as I mentioned before, there were several other dynamics, very specific related to 2020 geographic expansion with our customer, a new product introduction, as well as us, we added some additional capacity. And therefore we think that the underlying growth of this was mid to high single digits, but per COVID is, it's a rough estimate, but we believe low teens excluding that stocking.

Ed Riley-Day: Thank you, that's very helpful.

Frank Schulkes: The piece non-diabetes is a relatively small percentage, but growing very, very fast. Again, the product we have in the markets are very differentiating and growing very fast outside of diabetes, but it's off of a very small base.

Karim Bitar: Thanks, Frank. Yeah. Look at, in terms of how we grow our business in the future, I think it's fair to say that within the diabetes space, there's opportunity to grow our business. Clearly, we've got strong partnerships with leading manufacturers like Tandem Diabetes, and Medtronic, and Roche, and we value those partnerships and relationships, and we'll continue to work in that arena, but obviously the whole smart licensing and control segment is growing on a worldwide basis. So imagine in places like Asia, for example, there are significant growth opportunities. And so from our vantage point, we're very, very focused on partnering, but at the same time, serving consumers and patients challenged by diabetes to the best of our abilities.

Karim Bitar: I think outside of diabetes is also ample opportunities. And so, for example, in Parkinson's disease, there are development efforts right now with carbidopa, and L-DOPA where those offerings for severe Parkinson's disease are currently in phase three clinical trials and are advancing very, very well. And clearly, there's an opportunity for us to leverage our technology there. So I think it's fair to say that both within diabetes and outside of diabetes, there still is ample room for us to grow. I'm just sensitive to time, guys.

Karim Bitar: Yeah. I think we're probably going to have time for maybe a couple more questions. If I could just ask you to be brief with your questions and I just want to make sure we're answering everybody's questions. So we probably can take two, max three more questions.

Moderator: We will now take our next question from David Adlington from JP Morgan. Please go ahead.

Karim Bitar: Hi, David.

David Adlington: Thanks, guys. Few questions, but I'll be quick. Hey, how are you doing? Just a couple questions on the business. So ostomy, 2021 looking like another year of fairly limited growth. I just wondered if there was one critical factor you point towards to getting you back towards market growth. Is it product related? Is it selling distribution? Whatever you'd like to pull out is going to be the key issue. Secondly, in terms of wound, Coloplast also entering the gelling fibre market, towards the success there. I just want to get your thoughts on the impact on your business. And finally, just a strategic question. Rather than the acquisition side, maybe get your latest thoughts on any potential for divestments. Thank you.

Karim Bitar: Yeah. Thanks, David. Look on ostomy care, I think it's pretty clear. I think in the key geographies, there's a real opportunity in select key geography just to improve our commercial execution. So we're very much on the case on that one and B, we do need to refresh our portfolio. So I think those are the two key core elements and we're focused on that. I think in terms of Coloplast and the wound area, look, I think the wound marketplace is competitive. And I think that each and every competitor is doing their very best to frankly grow their business and we respect all of our competitors. On the other hand, we're just very focused on what we need to do and what we know is that when it comes to the antimicrobial hydrofiber segment, we're growing very, very well. We're continuing to innovate in a very meaningful and tangible manner.

Karim Bitar: And I expect that we're going to continue to grow there. I think we are under represented in the foam segment and the disposable negative pressure wound therapy segment. We're focused again there on commercial execution and frankly upping our game in terms of the competitiveness of our product portfolio. We're just going to execute on that and that's within our control, that's within our influence, and that's what we need to do. And there may be other segments that we currently don't partake in that one ought to be exploring. So that's what I'd say on the wound side.

Karim Bitar: On the question around divestiture, look, I think we've been very clear, David, in the sense that we've identified four categories we're going to focus on and those categories are advanced wound care, continence care, ostomy care, and infusion care period. And we're just going to keep on focusing on those and keep on focusing on the 12 geographies to drive our business. I hope I answered your question.

David Adlington: Great. Thank you.

Moderator: We will now take our last question from Christian Glennie from Stifel. Please go ahead.

Christian Glennie: Hi, guys. Thanks for taking my question. Yeah, just a couple of, if I could just push you a bit more, maybe on a couple of those last points. On Ostomy Care talked about the way you sort of reinvigorate that business. But is it fair to say that more of a multiple year view to get back to sort of mid single digit growth rate for that business. And then on Infusion Care for this year for '21, you talked about there are some underlying high single digit and stocking COVID benefit, but you're still saying a strong growth versus a tough comp. Is it still potentially a double digit growth for infusion care in '21? Thanks.

Karim Bitar: Yeah. So look, I think on the Ostomy Care, the way I would look at that is I think that that business was a business that we had under invested to a larger extent and for a longer period of time historically. So it is going to take more time, frankly, to reestablish meaningful and substantial growth. So I think you're on the right track there in terms of your thinking. Infusion Care. Look, I think the honest answer is we don't really know. I mean, I think the honest answer is we think that fundamentally the underlying growth at smart glycemic control segment is in the high single digits.

Karim Bitar: I think we've been transparent and open with you in regards to that matter. I think we do have a leading share of market. We do have a very differentiated product offering in infusion care and we're going to continue to invest very heavily in this arena and we think there are significant growth opportunities, both in diabetes and beyond diabetes. So where do you land at '21? Look, we've got tough comps. I think Frank highlighted that on numerous occasions. But the jury's out. Let's see how the year goes and progresses. So that's what I'd tell you qualitatively.

Christian Glennie: That's helpful. Thank you.

Karim Bitar: Yep. Okay.

Moderator: This is all we have time for. I will now turn the conference back to Karim for any additional or closing remarks.

Karim Bitar: Thanks. So look, I just want to thank everybody for all your questions, loved the level of engagement and these very thoughtful questions. So really very much appreciated. And all I can say is it looks on the COVID front, that things look like they're improving. So let's keep our fingers crossed. I got to say for at least my living here in the UK, I'm very, very impressed with what's happening and I'm hoping that as this vaccine rollout worldwide progresses, that that will bode well for all of us in all of our roles, all of our capacities. But what I can say is that from a ConvaTec vantage point, there's a sense of cautious optimism. We have a clear direction of travel and we're vigorously going to execute on that direction of travel. And so Frank and I are very much looking forward to being back in touch with you. Thanks again for taking the time today, all the best.