



2019 Annual Results & Strategic Update

28 February 2020



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Unless otherwise stated all stated financial metrics in this presentation are adjusted; for a full definition of the adjustments made please refer to the Financial Review in the full year results statement.

Hosts and agenda



John McAdam
Chairman



Frank Schulkes
Chief Financial Officer



Karim Bitar
Chief Executive Officer

1. Introduction

2. Financial review

3. Strategic update

1. Introduction

John McAdam,
Chairman

2. Financial review

Frank Schulkes,
Chief Financial Officer

Financial results - Performance in line with expectations

	2019	2018	Growth	Comments
Revenue	\$1,827m	\$1,832m	2.3% ¹	<ul style="list-style-type: none"> \$49m FX headwind, \$1.4m M&A
Gross margin²	59.0%	60.2%	(120) bps	<ul style="list-style-type: none"> (40) bps FX and (80) bps performance incl. transformation
Opex² % revenue	39.6%	36.7%	290 bps	<ul style="list-style-type: none"> Investment in transformation and MDR Partially offset by cost control in other areas
EBIT²	\$354m	\$429m	(17.5)%	<ul style="list-style-type: none"> Largely transformation investment driven and FX headwinds
EBIT margin²	19.4%	23.4%	(400) bps	
EPS²	\$0.12	\$0.16		<ul style="list-style-type: none"> In line with earnings reduction
Dividend per share (\$ cents)	5.7 cents	5.7 cents		<ul style="list-style-type: none"> 49% of adjusted net profit
Cash conversion^{2, 4}	98%	81%		<ul style="list-style-type: none"> Continued strong cash conversion
Net Debt / EBITDA^{2, 3}	2.5x	2.7x		<ul style="list-style-type: none"> Leverage down, dividend maintained

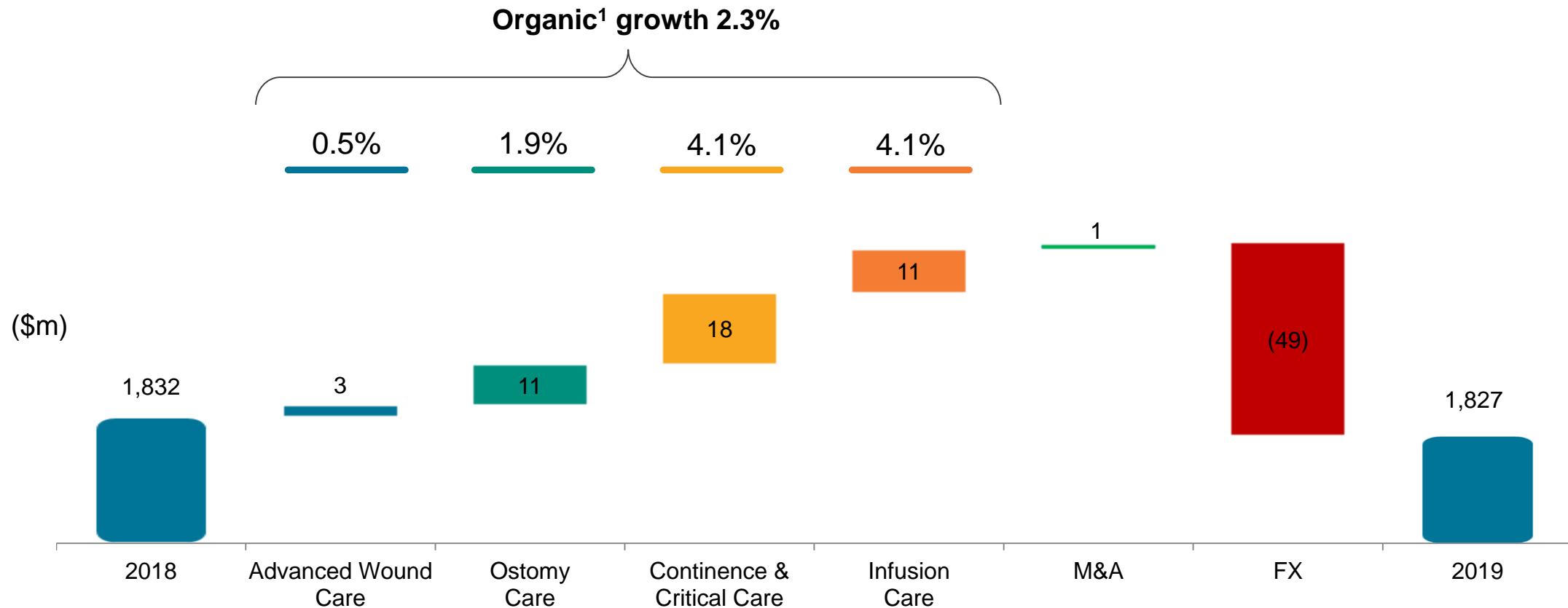
¹ Organic growth is growth at constant exchange rates excluding M&A activities

² Results are adjusted unless otherwise stated. A reconciliation of adjusted to reported results is in the full year results statement on pages 36 to 42

³ 2019 adjusted EBITDA \$443 million (2018: \$482 million)

⁴ Cashflow (Adjusted EBITDA – capex – net change in working capital / Adjusted EBITDA). See slide 10

2019 revenue - Modest organic growth



- Reported revenue declined 0.3% and grew 2.4% at constant currency
- \$49m currency headwind, principally Euro and GBP
- Net M&A contribution of \$1.4m, impact of J&R Medical and Southlake Medical Supplies acquisitions and Symbius disposal²

¹ Organic growth is growth at constant exchange rates excluding M&A activities

² J&R Medical acquired 1 March 2018, Southlake Medical Supplies acquired 1 October 2019, Symbius disposed of 1 March 2018

AWC & OC - Further improvement required

Advanced Wound Care¹

FY 19 0.5%
Q4 19 1.8%

- Foam and silver driving growth with strong performance from AQUACEL™ Ag+ / Advantage anti-biofilm
- New product launch, ConvaMax™, in super absorber segment
- Pressure on legacy portfolio remained
- Solid performances in EMEA, APAC and Latin America, US remains in transition
- Deployed new specialised salesforce in the US

Ostomy Care¹

FY 19 1.9%
Q4 19 5.2%

- Modest improvement against weak prior year
- Good performance from recent product launches Esteem™ + Flex Convex and Natura™ Accordion
- Ongoing investment in me+™ is driving patient enrolments
- Solid performances in Latin America, APAC and select European markets
- US continues to underperform

¹ Organic growth is growth at constant exchange rates excluding M&A activities

CCC & IC - Performing solidly

Continence & Critical Care¹

FY 19 4.1%
Q4 19 3.8%

- Strong performance from Home Service Group, gaining share in US continence market
- GentleCath™ Glide growing strongly
- Hospital & Critical Care revenue declining modestly
- Growth benefits from prior year packaging recall

Infusion Care¹

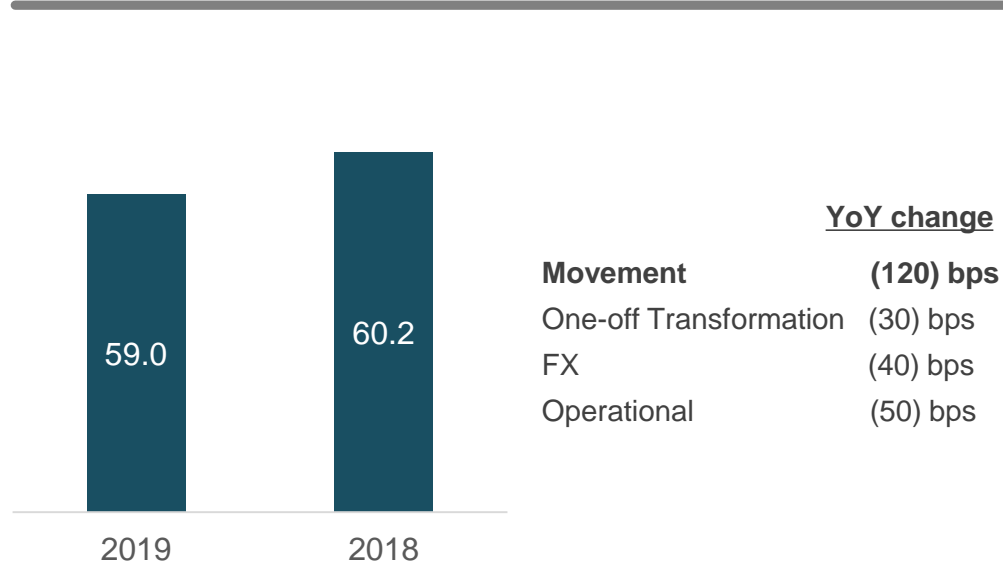
FY 19 4.1%
Q4 19 12.4%

- Good underlying demand in insulin pump market
- Continued strong growth in MiniMed™ Mio™
- Q4 growth benefits from change to ordering patterns in prior year

¹ Organic growth is growth at constant exchange rates, excluding M&A activities

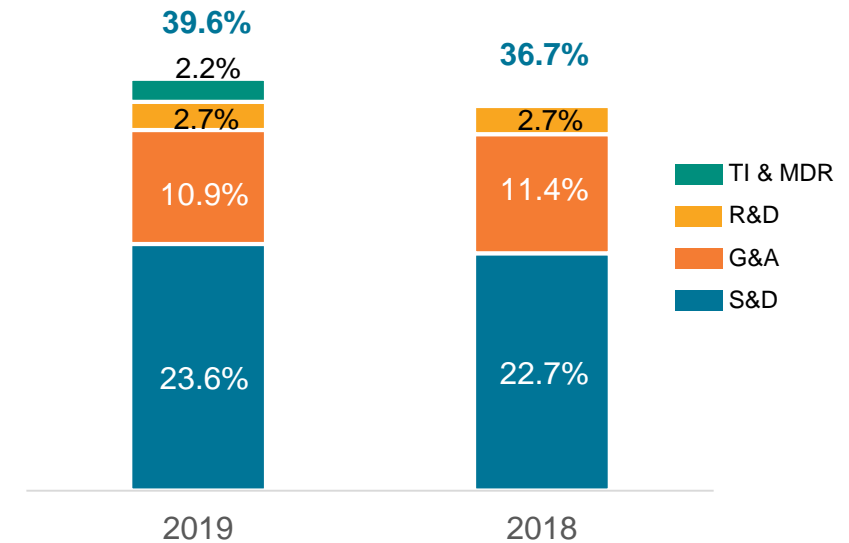
Margin & cost review - Continuing to invest

Gross margin¹ rate %



- Negative price / mix in line with expectations
- Operational excellence programme drove positive net productivity in 2019
- Modest transformation investments

Opex¹ % of revenue



- Opex % of revenue excl. transformation and MDR 37.4%
- Growth driven by increased commercial investment:
 - Specialised salesforce in US Wound
 - Regional growth – China sales and distribution

¹ Results are adjusted unless otherwise stated. A reconciliation of adjusted to reported results is in the full year results statement on pages 36 to 42

Cash and leverage - Robust cash generation and continued deleverage

Adjusted Cash Flow (\$m)

	2019	2018
EBITDA ^{1,3}	443	482
Capex	(61)	(72)
Δ NWC	52	(21)
Free cash flow ⁴	434	389

98% adjusted cash conversion (2018: 81%)

Net Debt

	31 Dec 2019 (\$m)	31 Dec 2018 (\$m)
Long-term borrowings ²	(1,486)	(1,621)
Cash and cash equivalents	386	316
Net Debt	(1,100)	(1,305)
Net Debt / EBITDA ^{1,4} (x)	2.5	2.7

Targeting <2x net debt/EBITDA¹

Completed debt refinance

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² Carrying value of total interest bearing liabilities excluding finance lease obligations

³ Adjusted EBITDA \$443 million (2018: \$482 million)

⁴ Cash generated from operations, net of PP&E

3. Strategic update

Karim Bitar,
Chief Executive Officer

Transforming ConvaTec by Pivoting to Sustainable and Profitable Growth

Pivoting to Sustainable and Profitable Growth

Context

- Attractive markets
 - Mixed performance
-

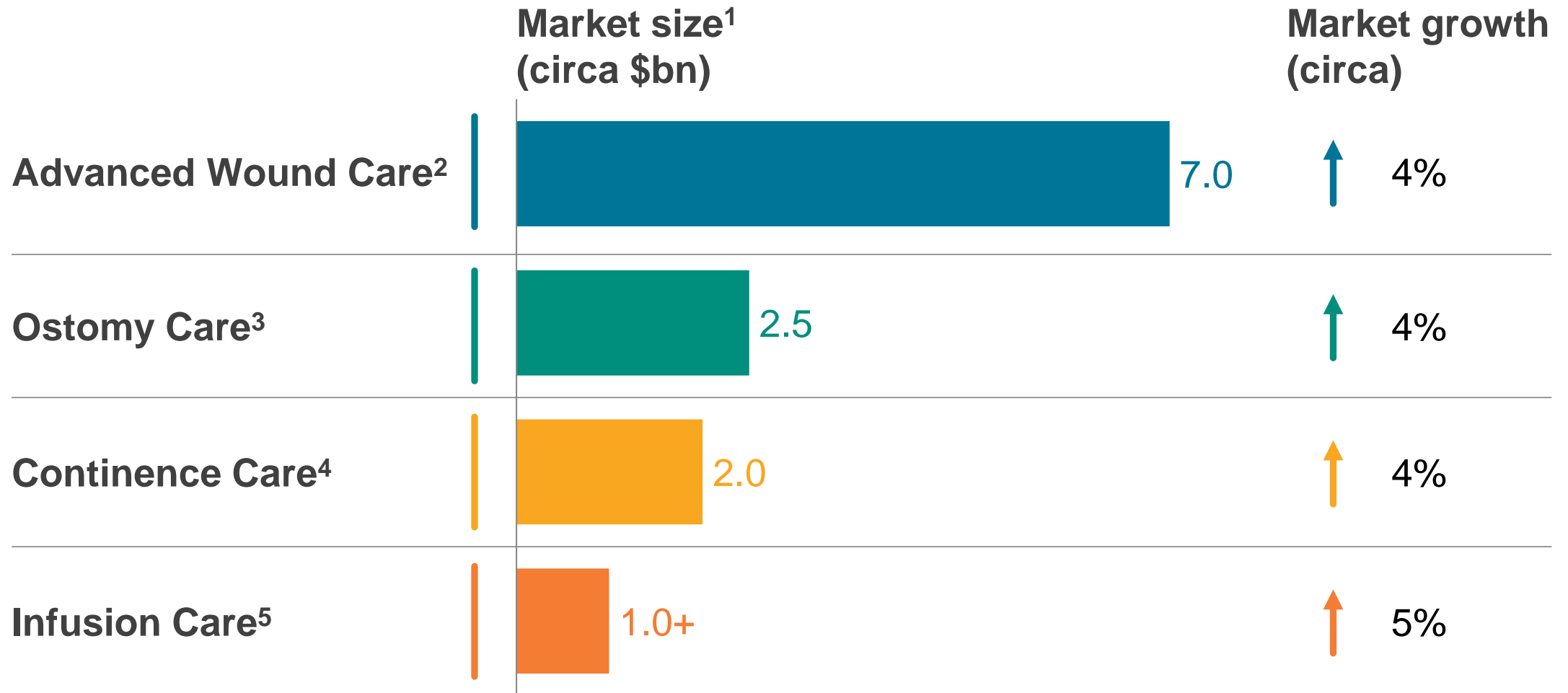
Challenge

- Organisational complexity
 - Limited capabilities
 - Imbalanced P&L
-

Path forward

- Clear vision
- Defined strategic pillars
- Simplified operating model
- New values

We compete in attractive markets



¹ Market size and growth information are estimates and are based on internal analysis and publicly available sources, including SmartTRAK and Global Industry Analysts Inc. reports.

² The AWC market includes advanced dressings (global alginate and gelling fibre dressing sectors (combined), contact layers, hydrogels, hydrocolloids and super absorbents (other advanced dressings), silver/antimicrobials and foam), biologics and negative pressure wound therapy.

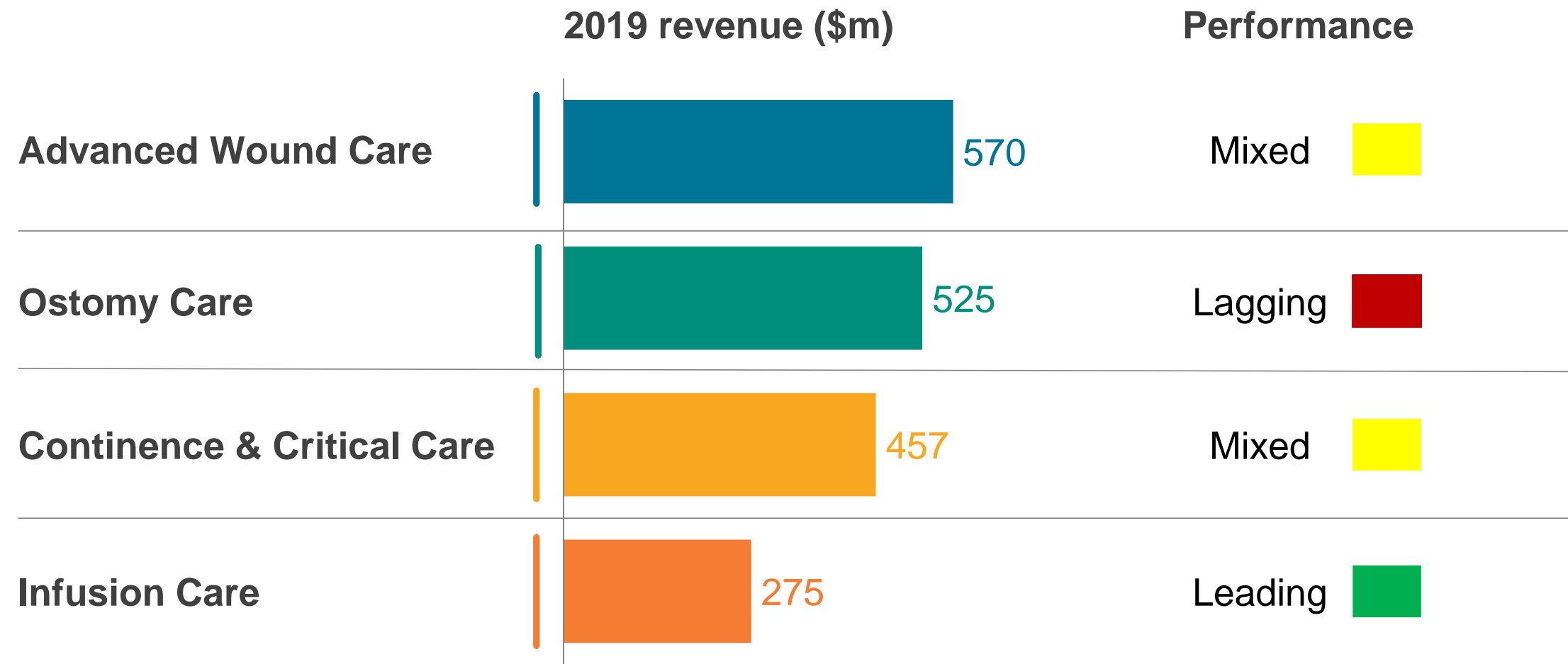
³ The Ostomy Care market includes pouching systems and ostomy care accessories (including deodorants, skin barriers and clothing) but excludes irrigation products.

⁴ The CCC market comprises the US and Europe intermittent catheter and fecal management market.

⁵ The Infusion Care market size refers to disposables for insulin infusion pumps.

However, our performance has been varied

ConvaTec



We face some internal challenges

Challenges



Organisational complexity

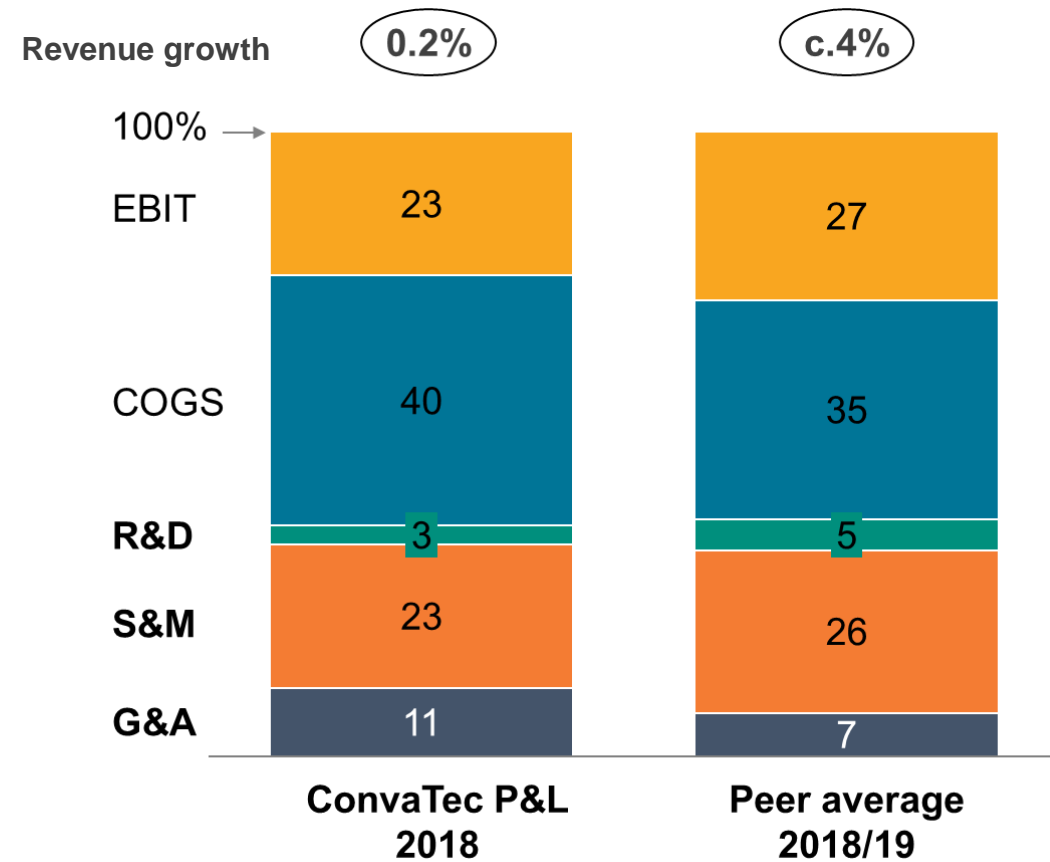


Limited core capabilities and execution



Underinvestment in R&D and S&M

Imbalanced P&L



¹ Indicative comparator information for peer group based on publicly available

We need to serve the distinct needs of patients and caregivers



Advanced Wound Care

Who are our typical patients?

Patients of all ages

What are their conditions?

- Ulcers
- Surgery
- Trauma

Who are their primary caregivers?

- Surgeon
- Wound nurse

Where are their care locations?



Hospital



Physician clinic



Home



Ostomy Care

Elderly patients

- Bowel cancer
- Other bowel conditions
- Cervical cancer

- Stoma nurse



Hospital



Residential care



Home



Continence Care

Elderly and disabled patients

- Age-related incontinence
- Neurologic injuries
- Spinal injuries

- Home care provider



Residential care



Home



Infusion Care

Patients with long-term needs, particularly diabetes

- Diabetes
- Cancer
- Autoimmune disease
- Neurological disease

- Diabetologist
- Endocrinologist



Physician clinic

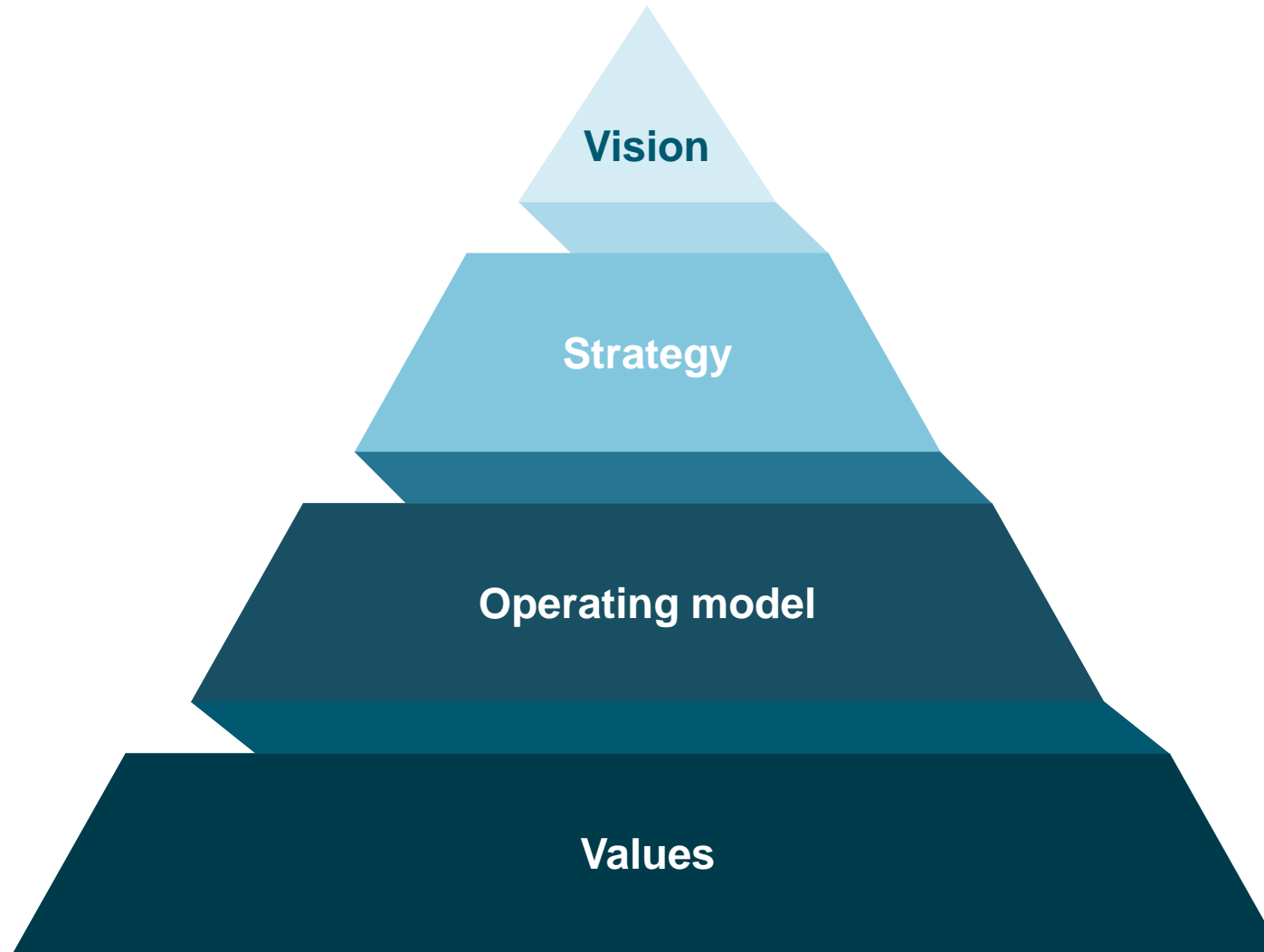


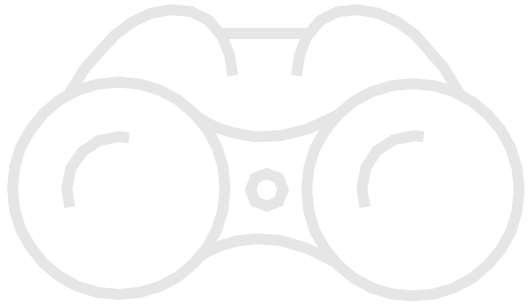
Home



Hospice

As part of our transformation, we are strengthening our organisational architecture





“Pioneering

trusted medical solutions

to improve the lives we touch”

We have established five strategic pillars to achieve our strategic intent of Pivoting to Sustainable and Profitable Growth



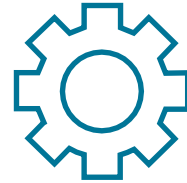
Focus

on “must-win”
markets and
categories



Innovate

in our work and
trusted solutions



Simplify

our operations



Build

“mission-critical”
capabilities



Execute

with excellence

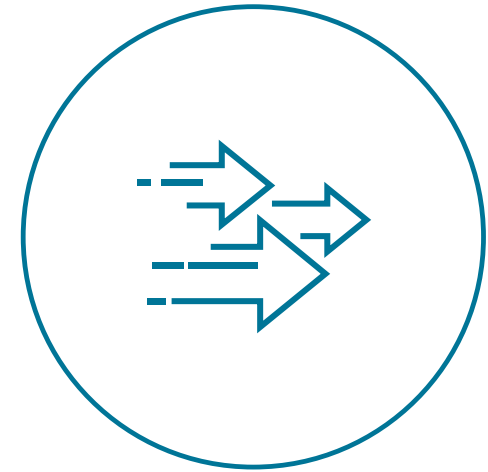
Focus: We will invest strategically in key markets and categories



Invest heavily in top
12 markets

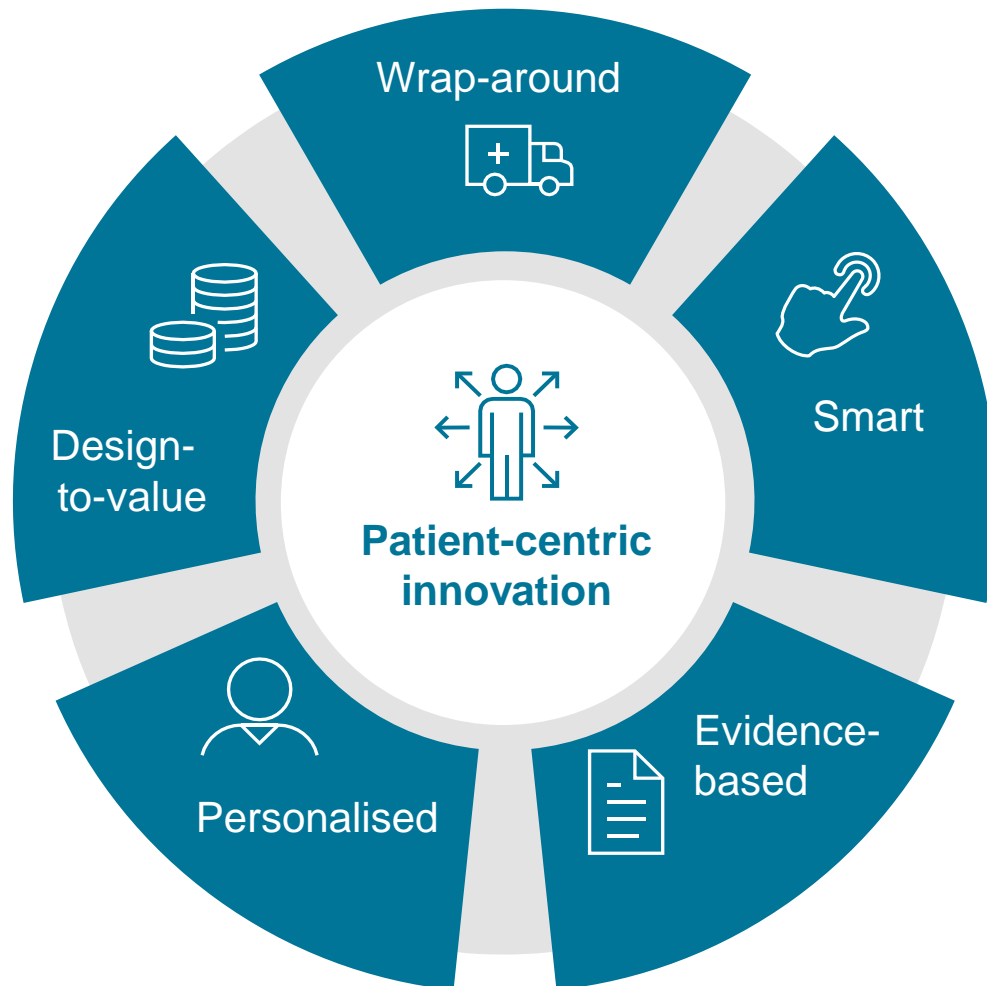


Compete effectively
in ~40 other markets



**Serve indirectly or
exit** ~35 tail markets

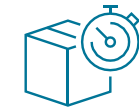
Innovate: Our innovation will focus on providing differentiated patient-centric trusted medical solutions



Innovation
driven
across...



Trusted medical solutions



Products

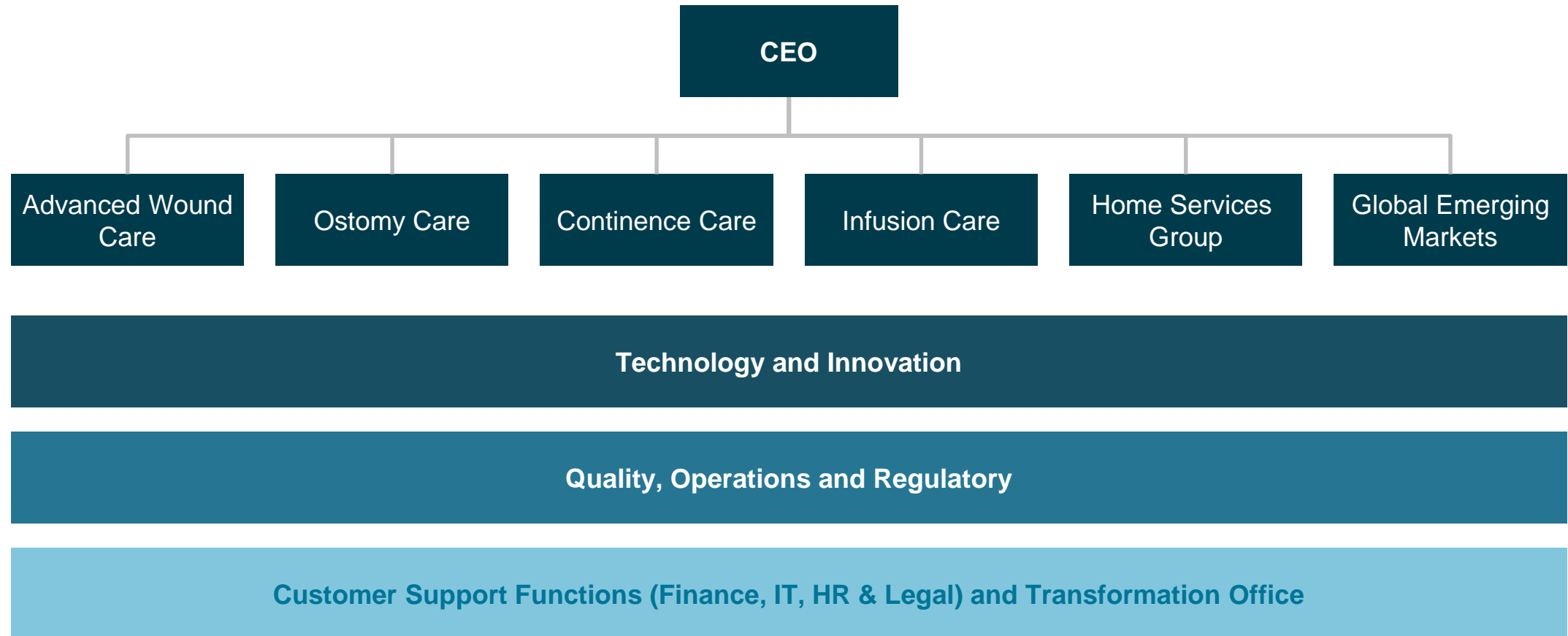


Services



Digital

Simplify: We are simplifying our operating model to be more customer-centric, agile, innovation-led and accountable

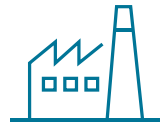


Build: We are building “mission-critical” core capabilities across the value chain



R&D

Strengthening product, process and clinical development along with medical education



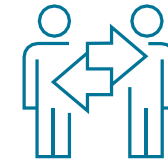
Supply chain

Producing high quality solutions reliably and efficiently



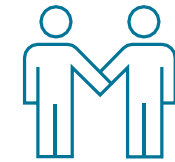
Marketing

Focusing on customer insights, targeted messaging and clinical proof points supporting our value proposition using digital channels



Service

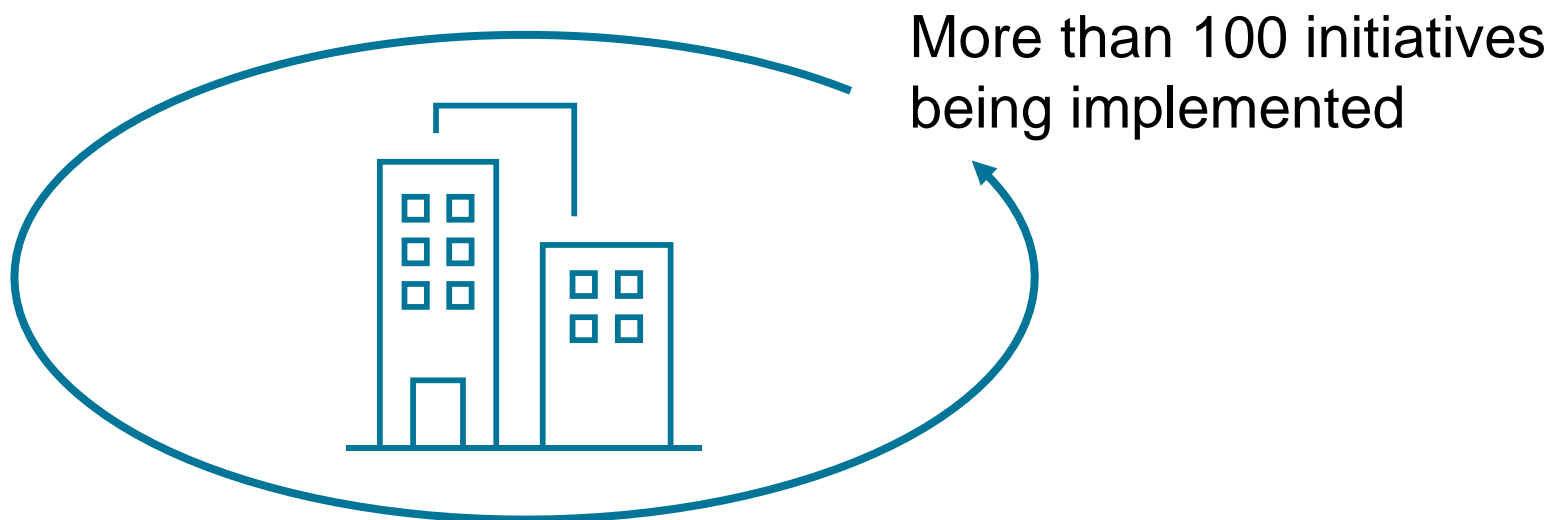
Broadening our service capabilities, building on our service excellence



Commercial

Improving our salesforce effectiveness and refining our pricing and market access

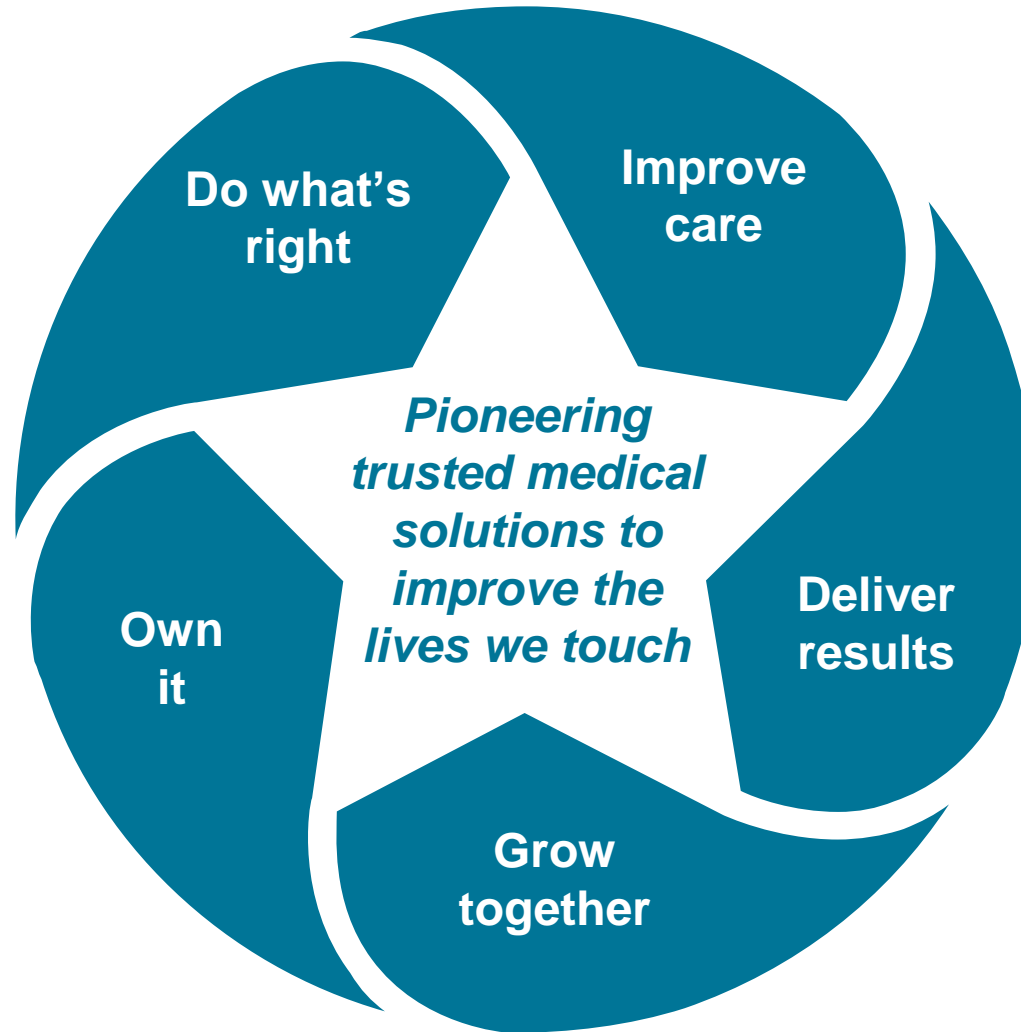
Execute: Instil executional excellence across the organisation



Examples (Commercial, Operational and Business Services)

- US Wound Care specialised salesforce
- EU CRM implementation
- AQUACEL™ Ag Advantage SCD
- Ostomy SKU rationalisation
- Packaging waste reduction
- Global Business Services

Our new values will underpin our vision, strategy and operating model



To realise our strategic intent of Pivoting to Sustainable and Profitable Growth, we are investing



Increasing non-recurring transformation investment to **c. \$210 million** (previously c.\$150 million)¹



Increasing investment in ongoing costs to **c.\$75 million** (previously c.\$50 million)²



Increased anticipated annual gross benefits in 2021, between **\$150 to \$170 million** and further thereafter (previously \$130 to \$150 million)

¹ Between 2019 and 2021

² By 2021

In summary – Starting to transform ConvaTec



Financial performance is on track

- Modest revenue growth
- As expected, profits are down



Transformation is being implemented at pace as we Pivot to Sustainable and Profitable Growth



2020 outlook:

- Constant currency revenue growth: 2.0% to 3.5%¹
- Constant currency adjusted EBIT margin: 16.0% to 18.0%^{1,2}

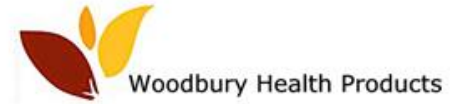
¹ Our intention is to drive absolute revenue and earnings growth, both organic and inorganic, therefore a constant currency measure is more appropriate moving forward

² A reconciliation of adjusted to reported results is in the full year results statement on pages 36 to 42

Q&A



Natura™ 



AQUACEL™ **Ag+**
Dressings

FoamLite™
ConvaTec

AQUACEL™ **Ag.**
Advantage

Avelle™




GentleCath™ **Glide**

ESTEEM™  *Flex* **Convex**



Appendix

Transformation investments and benefits

Now

Previously

Non-recurring investment

Total: c.\$210m

- Cost: \$140m to \$150m
 - \$35m to \$40m excluded from adj. EBIT
- Capex: \$60m to \$65m

Total: c.\$150m

- Cost: c.\$105m
- Capex: c.\$45m

Recurring annual investment

c.\$75m pa by 2021

c.\$50m pa by 2021

Annual gross benefits

\$150m to \$170m pa by 2021

\$130m to \$150m pa by 2021

Transformation Initiative investments and benefits

Transformation investment

- Transformation investment of c.\$210 million over 2019 to 2021 (previously c.\$150 million over 2019 to 2021). This consists of:
 - \$140 million to \$150 million of cost investment, of which between \$35 million and \$40 million will be excluded from adjusted EBIT, in line with our policy, and between \$60 million and \$65 million of capex investment
 - **FY 2019:** \$64 million of investment:
 - \$40 million of operational costs (largely opex)
 - \$20 million of capex
 - \$4 million of cost items excluded from adjusted EBIT, in line with our policy
 - **FY 2020:** \$105 million to \$110 million of investment:
 - c.\$50 million of operational costs (largely opex)
 - c.\$30 million capex
 - Between \$25 million and \$30 million of cost items to be excluded from adjusted EBIT, in line with our policy

Recurring transformation investment

- Recurring transformation costs related to commercial and R&D investment increasing to c.\$75 million by 2021 (previously \$50 million by 2021)
 - **FY 2019:** \$13 million in 2019
 - **FY 2020:** Between \$60 million and \$65 million in 2020

Annual gross benefits

- Anticipated annual gross benefits in 2021 increased to between \$150 million and \$170 million (previously between \$130 million and \$150 million).

Quarterly revenue performance

Quarterly reported revenues by franchise

	2018		2019			
\$m	Q3	Q4	Q1	Q2	Q3	Q4
AWC	147	151	130	142	148	151
Ostomy Care	132	136	120	133	132	141
C&CC	108	115	108	112	115	120
ID	66	57	73	71	68	63
Group	452	459	431	458	463	475

Organic¹ growth rate by franchise (%)

	2018		2019			
	Q3	Q4	Q1	Q2	Q3	Q4
AWC	0.8	(1.8)	(6.8)	3.3	3.6	1.8
Ostomy Care	1.5	(1.5)	(0.8)	0.3	3.0	5.2
C&CC	1.4	3.9	1.8	2.8	8.0	3.8
ID	(3.7)	(24.9)	(0.2)	1.9	4.3	12.4
Group	0.4	(4.0)	(2.0)	2.1	4.6	4.6

¹ Organic growth presents year on year growth at constant exchange rates ("CER"), excluding M&A activities
Values may not sum due to rounding

Quarterly revenue performance

Quarterly reported revenues by region

	2018		2019			
\$m	Q3	Q4	Q1	Q2	Q3	Q4
Americas	232	238	221	241	247	250
EMEA	185	185	177	181	180	186
APAC	36	36	33	36	36	39
Group	452	459	431	458	463	475

Organic¹ growth rate by region (%)

	2018		2019			
	Q3	Q4	Q1	Q2	Q3	Q4
Americas	(1.1)	(6.0)	(5.0)	1.1	7.1	5.1
EMEA	1.3	(3.5)	(0.2)	3.3	1.9	3.2
APAC	5.5	7.3	8.9	2.8	2.2	8.2
Group	0.4	(4.0)	(2.0)	2.1	4.6	4.6

¹ Organic growth presents year on year growth at constant exchange rates ("CER"), excluding M&A activities
Values may not sum due to rounding

Exchange rate sensitivity

- ConvaTec's geographic profile can lead to transactional currency impacts.
- We monitor key rates against the US dollar.
- 31st January 2020 spot rates would indicate a \$6-7m gain on revenue and negligible impact on adjusted EBIT compared with average FY19 rates

	FY 2019 Average	FY 2019 Closing	Spot @ 31 Jan. 2020	Sales Sensitivity¹ \$m	Adj. EBIT Sensitivity¹ \$m
Euro	1.12	1.12	1.11	4.1	2.1
GBP	1.28	1.33	1.32	1.6	(1.6)
Japanese Yen	0.01	0.01	0.01	0.4	0.2
DKK	0.15	0.15	0.15	0.3	(0.7)

¹ Impact on sales/adjusted EBIT based on a 1% weakening of the USD