ConvaTec Q1 2019

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Q1 Results Presentation

Rick Anderson

CEO, ConvaTec

Welcome

Good morning everyone and thanks for joining us for our first quarter call. This is Rick Anderson. I am joined by our CFO, Frank Schulkes. We will have a brief slide deck to take you through on our training performance in Q1 and then we will be happy to take your questions.

Transformation

Before we get into the deck I first want to touch on the progress we have made with our transformation initiative we announced eleven weeks ago. First, what has struck me has been the fantastic level of engagement and energy release that I've seen throughout the organisation associated with our transformation.

It is clear to me that the transformation is becoming a big part of our culture at ConvaTec and we are seeing the development of what I've described as the 'ConvaTec way'. While this has been encouraging, we are still impatient to move faster and start to see the benefits accrue in our financial performance more quickly.

However, I would just say that I remain very confident about the plans we set out in February. They will position us well for the future and I will look forward to coming back to you in August with a further update.

Now, over to Frank to walk you through our first quarter revenues.

Q1 Financial Report

Frank Schulkes

CFO, ConvaTec

Introduction

Okay, thanks Rick, good morning.

Revenue summary

So on slide 2 is the revenue summary. We reported group revenue of USD 430.6 million; a decline of 2% year-on-year in organic terms, but basically flat, excluding a provision top-up. I will come back to you in a moment.

This was in line with our expectations at a group level and reflected on going challenges as we discussed in February.

So by franchise:

- Advanced wound care revenue fell by 6.8% on an organic basis;
- Ostomy declined by 0.8%;
- Triple C grew by 1.8%;

- And ID was pretty flat, declining just 0.2%.

However, as you can see from the end column of the table, Wound in particular, but also Ostomy and CCC were impacted by an additional one-off provision in the first quarter totalling USD 8.9 million.

As part of our focus on improvement, as well as preparing the implementation of a new contract rebate system module in the second half of 2019, we have done a deep dive in Q1 to compare our provisioning methodology to best practices in Pharma and, based on that we have improved our methodology to estimate future discount claims by distributors in the US.

As a result we have topped up our provision and we believe this now provides a better estimate of future distributor rebate claims. This resulted in a one-off top up of the provision by USD 8.9 million.

We process around USD 250 million of rebates each year, therefore small differences in assumptions have an impact, in particular when built up over several years. And I think it is important to note that this only impacts the US, which is our largest single market and this future discount claim provision is the single largest accrual; and also that the change has no impact on the underlying revenue performance of the business in 2019.

So excluding this top up of the provision, advanced wound care revenue fell by 3.2%, which included an approximate 200 basis points drag from our skincare business. As a reminder, skincare is a small part of the wound business and has a disproportionate impact in the first quarter, which will moderate in the rest of the year.

Ostomy grew 0.9%; CCC grew by 3.1% and ID was unaffected by the provision.

I will now hand back to Rick, who will run through the franchises in a little more detail.

Franchises

Rick Anderson

CEO, ConvaTec

Thanks Frank.

Advanced wound care

So now, looking at the franchises, starting with advanced wound care on slide 3. As Frank said, trading in the first quarter was in line with our expectations reflecting the challenges we discussed with you in February. Underlying organic revenue declined by 3.2%.

In wound there were two main drivers of performance in the first quarter; first the drag from our skincare business and the continued trends in the fourth quarter of last year. Although the combined drag on growth from our older DuoDERM and our base AQUACEL hydro fibre products reduced slightly in the quarter our skincare business was a drag of around 200 basis points on growth in the quarter. And as Frank mentioned, this is a relatively small part of our wound franchise and we expect this to moderate over the remainder of the year.

On the continuing Q4 trends in the UK, despite some stocking initiated by the National Health Service in preparation for Brexit, we continue to see negative channel inventory movements overall in the quarter as outlined in our February announcement.

AQUACEL AG and AQUACEL AG Advantage delivered good growth in the quarter. Avelle is now launched in the US and initial wins, with high volume IDNs is encouraging.

In the US, as previously outlined, we continue to see some under performance. I will provide more detail in the following slide on actions we are taking in US wound.

We are pleased with the recently published American Academy of Orthopaedic Surgeons' guidelines on the standard of care and infection control, including three out of the four supporting studies using AQUACEL AG Surgical, underlining our leadership in this doable market.

New commercial model in US wound team

On slide 4, as you know we are moving to a new commercial model in the US Wound. New leadership in the Americas and in advanced wound care, and new product approvals with Avelle, AQUACEL AG Advantage at the end of 2018 have influenced the development of the programme from last year.

Our focus is on the creation of market demand versus a pulled distribution focussed model, accompanied by much more discipline and execution rigor. We have created a specialist sales force model, focussed around disease state, which we have deployed in Q1.

We have been training and re-deploying sales teams into this model and added to our capabilities by hiring new sales people, which will continue through Q2. I would like for this to go much faster but it takes time to get the right people in the right positions.

On top of that we've implemented an effective sales tool to enable the tracking of opportunities from identification through to targeting the right call point, sampling and closing. This gives us much better real time indicators, which are reviewed weekly; the who, what, where of the activities of our US Wound team.

This data also underpins our confidence in what we see as an improved performance as we go through the year and the sales team is built out. For example, in areas where the new specialist sales teams have been deployed we are seeing significant increase in the calls on target IDNs. Overall our call volumes are up around 30% over the past four months.

Ostomy

Moving on to Ostomy where underlying organic revenue grew 0.9%. We saw a good performance in LatAm and APAC during the quarter and continuing positive trends in some smaller European markets. We also continued to see good momentum in our newer convex products.

But our performance also reflects weakness in the US as outlined in our February announcement. To address this we have flattened our organisation structure and are implementing changes to our commercial approach, including revised segmentation and targeting of our sales force to focus on the most significant opportunities.

It is still early days but we have just agreed to a partnership programme with a large IDN to offer a total solution for Ostomy; both product, training and patient support, which we hope will be a template of best practice with our Ostomy business.

Finally, a small technical point, the renewal of the premier GPO contract will now be at the end of March 2020; previously it was December 2019, to align with contract expirations across product category.

CCC

In CCC, on slide 6, underlying growth was 3.1% organic. Continence care continues to drive overall growth. HDG performed well, growing above the overall US market.

ID

On slide 7, ID had a good quarter against a strong prior year comp. We saw a higher level of customer orders than we had anticipated and the change in inventory policy in our biggest customer in the fourth quarter of last year was a one-off event and ordering patterns have now returned to more normal.

Our Neria guard has now been launched in ten markets and has been extremely well received by patients, nurses within the pain management and Parkinson's disease and we are making good progress with potential partners for further market expansion. And longer term we continue to explore further applications beyond insulin therapy.

Transformation initiative

So on slide 8, we have a brief update on the transformation initiative and as a reminder of what we said in February, this has four work streams: commercial excellence, operational excellence, business services transformation, and portfolio optimisation.

Since February there has been a lot of activity and the momentum is building. This is the single most important programme within our business. We have been engaging our people through more than 75 workshops in the past two months, and bringing more discipline to our business model.

As a result the 'ConvaTec way' is beginning to emerge, with almost 300 leaders now trained in transformation. We will provide a further update of our progress in August.

Summary

So, in summary on slide 9, trading was in line with our expectations and reflected the challenges outlined in February. The building blocks are in place to deliver improved revenue growth in US Wound and Ostomy, good performance in LatAm and APAC, continued weakness in the US.

In CCC HDG is continuing to outgrow the market in the US and ID delivered strong levels of orders.

And in our transformation initiative I am pleased with the momentum that's building. And as we discussed in February, my priority remains on improving execution.

Finally, our guidance for FY 2019 is unchanged. And with that we will be happy to take your questions.

So now I will turn the call back over to Todd and we will open up the line.

Q&A

Operator: Thank you. Ladies and gentlemen, to register a question today please press star followed by one on your telephone keypad right now. If you change your mind that's star followed by two. And when it is your turn to ask your question please ensure your phone is unmuted locally.

So our first question today comes from Sebastian Walker from UBS. Sebastian your line is now open.

Sebastian Walker (UBS): Hi there, thanks for taking my questions, I've got two if I could? So just on the change in rebate provision accounting; so that was part of a US review with new management there. Can you comment on whether you have completed an overall review and that this is the only change that has come out of that? Or whether you expect anything else over the remainder of the year?

And then the second question is on guidance; I was wondering how you think about the organic growth guidance range given that now, yeah, that your provision headwind? So are the expectations on the underlying business after Q1 better than what you gave at guidance in Q4 and therefore you think you can recoup that? Or has the business underlying performed in line with what you expected in Q4? Thanks.

Frank Schulkes: I'll take the first one. So indeed, you know, I explained that we have done the deep dive on this specific provision. It is the single largest provision we have. We will continue to look for improvements in the business but we don't expect anything coming even close to what we discussed here in future, at this moment there is nothing.

But of course we continue to look for improvements in all the processes that we apply, but there is nothing in size that comes close to what we are doing here in Q1, which is sort of this catch up over differences over the years.

Rick Anderson: Yeah, let me take the one on the guidance. You know, first of all we are confirming our guidance again for the year and as we sort of look forward, we knew as we described to you back in February that Q1 would be a weaker start to the year, both in AWC in the US, UK and we expected a little softer ID performance, which turned out to be a little bit better. So that was in line with our group level and a small beat versus consensus.

In AWC, our specialist sales force model has now been implemented and we are very optimistic about what we have seen in the early days of that deployment. We are still hiring people, still in the deployment of that model, but it gives us some reasons to believe and we will come back to that in August.

And as we mentioned, the skin care business continues to be a drag on that, on the overall business; it is a small proportion of the business but it has a disproportionate impact on it.

CCC, you know, we expect to be in line with our stork levels and our second half comps are a little bit easier. In ID we think we'll have a better second half as well.

And then obviously we mentioned, we spent a lot of time talking to you about leadership changes we have made back in February and we think we have the right leaders in the right jobs, so that gives us confidence about our guidance for the year.

Frank Schulkes: Let me add a little bit to that. Of course the provision is not helping, we get that, but as we said before we are confirming our full-year guidance, so no changes there. The other variable that causes the variable is foreign exchange and it could help us or could hurt us. If I take spot prices today it's probably a 30 bp hurt on the EBIT rate line but that changes every day.

Sebastian Walker: Thanks very much. And just on skin care, so could you comment on weather the magnitude of the headwind should continue over the remainder of the year or how should we think about that?

Frank Schulkes: Yeah, so last year skin care was a 90 – 100 bps drag. In Q1 it was disproportionate, and this is related to last year in Q1 another supplier of similar skin care products was in a back order position and therefore we had more orders in Q1 last year than normal. So therefore that normalises in the second quarter and beyond, so we expect that we will see a drag for the year and it is probably more in line with what we have seen in, for instance, 2018.

Sebastian Walker: Thanks very much.

Frank Schulkes: A last thing I wanted to remark related to wound, the second half we will not have the impact of the de-stocking that we've seen in the UK. So there has been some Brexit stocking, but overall there is a net de-stocking for our business in the UK. Certainly in Q1 it will finish somewhere in the second quarter, so we will have also from that point of view an easier run in the second half.

Operator: Our next question today comes from Veronika Dubajova, calling from Goldman Sachs. Veronika, please go ahead.

Veronika Dubajova (Goldman Sachs): …please, if I can. One is just looking at CCC business; it seems from the performance this quarter that maybe the momentum here has decelerated a little bit. Can you help us understand whether that was driven by the continence or the critical care part of it? And maybe also, since we are on that topic, give us an update on the European catheter launch?

My second question is sort of a slightly bigger question, but when can we expect to get a strategic update on the size and shape of the portfolio going forward? Thank you.

Frank Schulkes: Okay, good morning Veronica. I will take the first one. So we have seen a continuation of negative performance in the hospital critical care business in total. So it is clearly a drag, versus last year, HDG is still way out-performing the US market and you have to think here about high single digit growth and that was in 2018 a couple of points higher. So I wouldn't call it a deceleration because it is still very much out-performing the growth of the US market but is now in the higher single digits.

Rick Anderson: And Veronica, this is Rick, good morning, thanks for joining us. So let me answer the next two questions you've got. On the EU catheter launch we are in a single market where we have launched our product. We are in patient evaluations. The feedback has been overwhelmingly positive, both from patients and physicians and we are continuing our planning for our ramp up for launch later in the year. And so we are quite optimistic about the patient feedback that we have received to date and we continue to progress in terms of our planning. So we will give you an update on that in the first half later in the year.

As relates to strategic update, as you know, one of the four work streams in our transformation is the portfolio optimisation. We have teams that are working today as part of our transformation initiative on our portfolio in general and our board continues to evaluate that work as it is happening in real time. And again we plan on giving an update at the first half on the transformation and that will be part of that update.

And just to reiterate the point that I made back in February, our goal would be to leave any, both disposals and/or acquisitions, major changes to the portfolio to Karim Bitar, our new CEO, as he comes in and the table will be set for that. That's the goal. We may accelerate some of that, we may not, but we will give you an update later in the year on that.

Veronika Dubajova: That's great, thank you both. And if I can maybe just one quick follow up for Frank? Frank, given the growth and the saving in the portfolio in the first quarter, any comments you would make in terms of the phasing of profitability for the business 1H versus 2H? And that is my final question, thank you.

Frank Schulkes: Well we will see a…and this is pretty normal for our business with one exception, that was 2018; we typically see indeed in the second half a higher percentage of the total revenue, typically anywhere between 51 and 53% and that will drive for sure on the EBIT line a higher EBIT rate in the second half versus the first half.

On top of that, as we discussed also in prior years, we typically also see some more productivity gains in the second half of projects that started and of course in the first half, the first quarter, we sell inventory that was produced the year before, so at higher cost. So we see, like we've seen in '16 and '17, on the bottom line a pretty significant increase in EBIT rate and that is largely given by the weighting of the revenue first half/second half.

Veronika Dubajova: Right. Just to clarify, you would not expect that to be particularly, or more pronounced than usual this year?

Frank Schulkes: No.

Veronika Dubajova: Okay, that's great, thank you.

Operator: Our next question is from Patrick Wood calling from Bank of America Merrill Lynch. Patrick, please go ahead.

Patrick Wood (Bank of America Merrill Lynch): Perfect, thank you very much for taking my questions; I have two please. The first, I am curious to get any comments or thoughts you guys have on the Acelity deal. I know 3M is pretty strong on compression and acute and Acelity is pretty good in outpatient and surgical. Do you think this changes the competitive environment or is that a non-event for you? That would be the first one.

And then the second one, kind of a follow on in some ways from what Veronica was suggesting and just to get some clarity; the incremental OPEX investment and also the mix, i.e. lower wound care mix, at least in Q1, for the margin structure of H1 relative to H2, year-on-year the margin change, would you expect a slightly better performance year-on-year of the margins in the second half relative to the first if you see what I mean?

I.e. is the first half somewhat more front end loaded with investment relative to the second half? That would be helpful. Thanks guys.

Frank Schulkes: Yeah, okay. No, I wouldn't say that the first half will be more front loaded from an investment point of view. But the big driver that will be significant, will have significance on the EBIT rate more of the revenue loading first half/second half. So that's how I would answer that question. There is not a particularly high front-loading of cost versus first half and the second half.

We are continuing to spend as you know specifically in transformation but MDR costs will also ramp up so, and that is not something that will happen more in the first half.

Rick Anderson: And Patrick, this is Rick, just to comment on the Acelity deal; I think there is, for me there is three big take-aways from the Acelity deal. One is it confirms that the markets that we compete in are very good markets as we discussed in February. And if you look at our competitors' results over the last few days; using wound as an example, these are great markets, structurally sound that are growing and we are working very hard to get our fair share of that.

Secondarily, 3M is a blue chip company and we have a lot of respect for them. It will be interesting to see how their integration goes and what they do in the market place. We will be watching that.

And then thirdly, I don't believe it changes any of our focus on execution in any way. We are totally focussed on the execution plans for our company and specifically what we are doing in those markets. So for all intents and purposes it doesn't change any of our planning in any way.

Patrick Wood: Smashing, thank you for answering those questions guys.

Operator: Our next question is from Chris Gretzler calling from Credit Suisse. Chris, please go ahead.

Chris Gretzler (Credit Suisse): Yes, good morning. It's Chris. I have three questions actually; now the first relates to the rebating. Actually could you specify for how long this kind of provision or for what period it is now related to so that we can get a bit of a sense about the significance?

And I was just a bit surprised by now you mentioned the USD 350 million as an annual rebate that you process. And I mean if I look at your US businesses maybe USD 600 – 700 million, so that basically it is a very significant gross to net; could you just confirm that?

And the second question is on Kindred, we learnt that for some reason it looks like that account has gone away from you and could you specify the impact you would expect from that over the next 12 months?

And then the last point is just on the CEO hiring; I guess I have not heard enough to know the rationale behind hiring Karim, so maybe if you could elaborate what made you excited to hire him and what set him apart? That would be great, thank you.

John Crosse: Chris, hi, it's John Crosse here. Just we didn't get on our end your second question. You were asking about an account loss but we didn't get the name of the account, what you were referring to. Could you just repeat the second question please?

Chris Pepper: Yes, it was Kindred, Home Health in the US.

John Crosse: Thank you Chris, sorry about that. So…

Frank Schulkes: So perhaps it helps if I explain how this process around rebating works in the US and that might give you an answer to the two questions you have. So we're selling to distributors and we have agreed contracts with distributors on volume based list price. And the distributor sells on to the end customer, for instance a GPO.

We also have agreed prices with those end customers and if they are lower than the list price at which we sell to the distributor then the distributor can claim back the difference between the end customer contract price and their list price.

And we process around USD 250 million of these, not USD 350, and this is really a standard practice in the industry. So this is not something ConvaTec specific; so we hold a provision, which is an estimate for these types of discounts and we have been using this provisioning methodology consistently for a very long period of time, for years.

As I explained we have now improved this methodology using Pharma best practices and if you now would assume the following; if we would apply this new methodology and we would go back in time, let's say to 2010, we would in 2010 see a small increase, a difference between the two. And in 2011 again and in 2012 again; small changes every year, and these have been building up to, for instance, the amount that we have been taking in the first quarter.

So we have decided to change and improve the methodology, and therefore we've taken this USD 8.9 million hit in the first quarter, but in fact it relates to a very long build up over time if you look at the difference in methodology. We are talking about difference in methodology to estimate these rebates. I hope that answers your question.

Rick Anderson: Chris, this is Rick; I'll take the next two. In general we don't really comment about accounts coming and going within a quarter, but I will just make one general comment because some of our competitors do comment. Between Coloplast, Hollister and ConvaTec, you know, all of us are doing the best we can to win marquee accounts.

We, in the quarter, we've landed some very high profile IDNs that I will not be talking about, but that's, I put that in the course of normal business so I wouldn't comment any further than that.

As relates to the CEO hiring, let me just go back to what we said back in February, before our announcement and then what we said when we announced Karim's appointment. We said that our board had set out a very clear criteria for what we were looking for in a CEO, which is really anchored in what we think the needs of the business are. One, a proven track record of execution; two, that they came with a general management capability beyond just sales and marketing and three, that they had led a transformation in their role. Those were the three heaviest weighted capabilities we recruited for.

And then once we announced Karim, if you look at his profile as a leader, you know, he has spent 20 plus years in the industry; 15 years at Eli Lilly and Company, started his career at McKinsey and Johnson & Johnson. He led a chronic care business for diabetes for Lilly, both at a franchise president level but also as a regional leader. He [inaudible] plans as part of his responsibility as a president and then he transferred that to a public company role at his present company, Genus, where he led an extraordinary transformation of that business over the last eight years.

So in our view Karim brought both the transformation experience, a proven track record over an extended period of time that we could measure and then also he brought the general management capabilities. Because of our operational issues that we faced in the past, we thought that was a very important part. So his background mapped very, very well to the criteria that our board had put together and we're very proud to have Karim join us in the Fall.

Chris Gretzler: Great, thank you for your answers.

Operator: Our next question comes from Hassan Al Wakeel from Barclays. Hassan, please go ahead.

Hassan Al Wakeel, (Barclays): Thank you for taking my questions. I have a couple please. Firstly, could you elaborate of the weaker US Ostomy performance? Where is new patient capture trending and where is this relative to the community market share and are you still on track for a new suite of products 18 months away in Ostomy?

And then secondly on ID, where do you think we are in the switching process for patients ahead of the deadline later this year associated with the ANIMAS exit? Thank you.

Rick Anderson: Let me take the first one, Frank; you can take the second one. Specifically to talk about Ostomy; we've seen bright spots in Ostomy outside of the US, specifically in APAC and here in Europe where we're seeing a return to growth. Specifically within the US marketplace NPC continues to be challenged in the US and we've taken actions to be able to deal with it. We've flattened the organisation. We have segmented our markets specifically to customers where we could put more firepower on the targets.

The good and the bad of the Ostomy business as you know, nothing happens fast. It sort of moves at a glacial pace and we are focussed on two points; one is new patient capture and the second is our direct consumer programme when patients, you know, about 60% of patients rotate out of the product that they were put on in the hospital into a different product at some time in the first year. So we are investing heavily in our me+ direct to the consumer campaign and that continues to grow and we are happy with what we are seeing in terms of growth.

Your second question specifically as it relates to our investment in our next generation platform, we continue to progress those investments and our R&D teams are hard at work and we will give you an update on that, on our progress there later in the year as well.

I must ask Frank to comment on the ID question.

Frank Schulkes: Yeah, so we've said in February that the ANIMAS exit will have an impact on the 2019 growth rates for the ID business given that there is some disturbance here. Certain customers will go to Medtronic and certain customers will probably go to Tandem and some customers will possibly go to patch pumps.

So far what we've seen in the first three months is, the switching is going as we planned. We had several models but in line also with what we signalled to the market in February. There is still ANIMAS branded product demand in the markets and we see an uptake on both the Medtronic side as well as on the Tandem side.

So we continue to believe that the growth rate of the ID business in 2019 will be positive, but will be less than the historical market growth that we have seen over about 4% and then it will normalise in 2020.

Hassan Al Wakeel: Thank you.

Operator: Our next question is from Paul Cuddon from Numis. Paul your line is open.

Paul Cuddon (Numis): Good morning guys, just two questions from me. Firstly on the anticipated divisional impact of and the potential French reimbursement changes in the future? And secondly on the success of Home Distribution Group on continence, and Ostomy featuring a bit more heavily, to what extent could that sort of help the US Ostomy business?

And the integration between the 180 Medical and the me+ offering as well would be interesting, thank you?

Rick Anderson: Yeah, morning Paul. So on the French reimbursement, I think you know that indeed overall there is a target of about 150 million that they want to take out of the total MedTec industry. The discussions are continuing and moving between reimbursement cuts in wound specifically as well as in Ostomy.

And the latest we have received is that it looks like the Ostomy business or the Ostomy reimbursement will probably be higher, the cuts, possibly in double digits and that the wound cuts are going to be mid to higher single digit. But no definitive answer yet on…there is still continuation of discussion, but that's the latest we've received out of the market.

Frank Schulkes: Good morning Paul. Just to respond to your question about HDG and Ostomy; we see that as a real opportunity. As you know, and we've spoken about this ad nauseam that we believe HDG has a world-class capability in terms of how they interact with patients, payers, physicians and our ability to leverage that service model in our Ostomy business we think is a real opportunity and there's on going work there to make that happen.

So we will, again we can, at our mid year update we can give a little more detail around that but I think that's one of our biggest opportunities within the HDG business to grow our share of Ostomy support for both customers and patients, because of the sort of capability resident in the building there.

Paul Cuddon: Okay, thank you.

Operator: We now have a question from Alex Gibson from Morgan Stanley. Alex your line is open.

Alex Gibson (Morgan Stanley): Hi, thanks for taking the questions. I have two. The first one is just a follow up on the compact catheter launch and a couple of questions there. Are there any elements that you can disclose, which you think are differentiating versus peers at the current time? And what proportion of the European market are you going to be targeting with the launch this year? And finally, do you expect the product launch to help your continence sales growth this year?

And then my second question is on the guidance; given that you've kept full year guidance constant, can you highlight what you've seen in Q1 that has given you confidence that you can offset the 50 basis points headwind from the rebating topic, or should we just be expecting the range to shift 50 basis points lower? Thank you.

Rick Anderson: Thank you Alex. I'll take the first one, Frank and you take the guidance question. So our launch, our compact catheter launch here in Europe, without getting into sort of the competitive nature of the product because we are in our pilot launch, I would just tell you that from both an aesthetic and patient confidentiality/patient perspective the product is highly differentiated from that perspective, both in design and in terms of performance.

And we will be talking more about that as we go into our full launch. The segment of the market that we are targeting, as you know in Europe, the high-end catheter segment is about a USD 500 million market segment here in Europe alone, of which we have, this is all blue ocean for us, we will be entering into what we believe to be a terrific marketplace from a very low starting position. So we are excited about that in terms of growth.

In terms of impact in '19, we have very modest expectations for the impact of that because of the timing of our launch and because we are in the market piloting and preparing for that launch, so from a financial perspective it is not going to be that relevant to us. But it is a tremendous opportunity as we sort of look forward in our plans.

Frank Schulkes: And to add on to that, our estimation of sort of the high end market where this product plays is between USD 500 – 600 million in Europe, so it is a very sizable opportunity but we are not going to go to a full Europe launch here; we are going market by market.

Rick Anderson: And the question of the guidance.

Frank Schulkes: Yeah, so as we said, we are not changing our guidance and in line with what Rick mentioned earlier in the call, what our reasons to believe here is that we will change from the position where we are in Q1 to a one to two and a half percent organic growth for the year.

I think if you click through the different franchises, and we mentioned it before, the wound business will move from negative to positive. A couple of clear points here are that the comps in the second half are easier than in the first half. As we mentioned before, skin care is a very disproportionate drag in the first quarter and that will moderate, so that will also be very different in the second half versus the first half.

The destocking that, the net destocking that we experienced in the first half in the UK and Europe is stopping after the second quarter, so that will also help us. And then, of course, as we discussed, the change of the US wound business, the model, to go to a more specialised sales force with more focus on in market demand is happening or has happened in Q1 and we are still hiring in the second quarter.

So there is a disturbance in the first half that should subside in the second half and we should start to see indicators of an improvement in the performance of that business. So I would say that those are the key areas why we believe that wound is going to move from a negative to a positive.

Ostomy care, we have said already in February the broad projections for Ostomy, we don't expect a lot, it's going to be flattish to very low single digit, so no real change there. CCC will improve in also the second half. There will be easier comps for CCC as well. HDG is continuing to perform very well, much higher than the overall market.

And then ID, although it was very small negative territory in the first quarter is going to also see a very different comp perspective in the second half and, as I said before, we expect ID to be positive for the full year, given that it was slightly down in Q1, that will also move to positive territory specifically in the second half more than Q1, so that will help us as well.

And that's basically, those are the key drivers why we are continuing to call the guidance here of one to two and a half percent, even with the headwind that we experience in the form of the additional top up in the provision.

Alex Gibson: Okay, yes, that's very helpful, thank you. Could I just ask one follow up on the addressable markets; there's a USD 500 – 600 million; how much of that market do you think you will be in by the end of this year? Is it going to be 30%, 20% - any indication would be helpful? Thanks.

Frank Schulkes: Well we'd prefer not to comment on that.

Alex Gibson: Okay, thanks.

Rick Anderson: Okay Todd, thanks. We've probably got time I think for two more.

Operator: Okay; the first is from Kit Lee of Jeffries. Kit, your line is open.

Kit Lee (Jeffries): Oh thank you. I have two questions please? So firstly just to clarify a bit; on your full year '19 guidance on revenue growth and EBIT margin, would these include the provisions that you have in Q1 and potentially for the provisions through the year?

And then the second question is on the infusion devices; I think Q1 probably came in quite ahead of expectations and I am just wondering what do you think about ordering patterns for ID for the rest of 2019? I am just wondering if you have seen any pull forward of orders into this quarter or would Q1 be I guess a good base for the rest of the year? Thank you.

Frank Schulkes: Okay, yeah, I will take both questions. The top up of the provision of USD 8.9 million is in our number and therefore is part of our overall guidance, not excluded.

On ID, we had, you know, the ID business is a very lumpy business and we had sort of an extraordinary event happening in the fourth quarter. We expect in '19 that this business, and it sounds a little goofy, but will go back to normal lumpiness.

Q1 was indeed somewhat better. I would say specifically the second half will be in positive territory. We expect at this moment that probably Q2 will still be depressed. The key thing here is though, coming back to what I said before, we expect the overall business or organic growth for ID in 2019, for the full year, to be below historic market growth rate but positive. I hope that answers your question.

Kit Lee: Okay, thank you.

Operator: Our last question today comes from Yi-Dan Wang from Deutsche Bank. Yi-Dan please go ahead.

Yi-Dan Wang (Deutsche Bank): Yes, thank you very much. I have three questions, so the first one on skin care. I know it's not a great business, it's not a big business for you, but can you give us some sense of what percentage of the wound care mix it is and the reason for the weakness? Was it just a one contract that you lost and therefore it's a one-off event? Or is it something, is the loss caused by a lack of focus on that business and therefore we should be expecting less from that book of business?

And then secondly, can you comment on your exposure to wound and Ostomy care in France? And help us, you know, if the, I suppose reimbursement cuts that are being discussed at the moment does go through how that would impact you on the top line and on an operating margin basis?

And then thirdly, you commented that the Ostomy business performed well in Latin America and Asia, can you comment on whether those are driven by tenders and whether those performances will be sustained going forward and why that would be? Thank you.

Frank Schulkes: Okay, so on skin care; skin care is about 6% of our overall global wound business. So it is indeed small. This has been deteriorating for some time now, so this is not a one-quarter event; so it is probably not a real business that is hard core of ConvaTec.

Secondly, on the exposure in France; the overall revenue in wound in France is about 13% of the total wound franchise, but of course the reimbursement cuts are probably going to be focussed more on the form part of the business and we just don’t disclose exact numbers there. But of course it is such that a relatively smaller sub-set of the overall wound revenue, so it is not 13%; it is something lower than that.

Ostomy is very small in France. It is probably around 3% so that will not really have a material impact on ConvaTec.

Rick Anderson: I’ll take the Ostomy question; so as I mentioned to you before, we are seeing some, we are seeing some growth pockets and we are happy about that. But as you know Ostomy is a pretty concentrated market. We have about 20% market share globally and if you look at where we’ve seen this sort of performance uptake in Asia, it is really driven by China and Asia.

Latin America, double-digit growth; we’ve seen some countries in Europe, like Italy we’ve seen a 7% rise. And then one of the more encouraging things is our me+ programme worldwide continues to grow, specifically in the US marketplace where we are capturing patients from the new patient capture, both our patients, our competitors’ patients and they are coming into our database where we have the opportunity to talk to those patients and be helpful and service them in a full service way.

And that gives us the opportunity at the one year, the six-month to one-year mark where those patients are switching out based on their adaptation, the changes in their body; and we see good growth in our convex products associated with that. So we believe that those trends will continue in some of those markets given our strength in those markets and our focus is to drive that growth there, but also continue to work diligently in the larger markets like the US, where it is really about new patient capture in that sort of direct consumer campaign that we discussed earlier.

Yi-Dan Wang: Okay, so if we look at the growth that you’ve reported in Ostomy care in the quarter, that was against an easier comp, so in underlying terms the momentum deteriorated further. When do you think we could see benefits of your initiatives in the US? When will we see that deterioration in the momentum actually turn? Would that be a 2019 event or would it take you longer than that do you think?

Rick Anderson: Yeah, well like I said, we continue to see deterioration in our NPC in the US marketplace where that's been offset by growth in our emerging markets on an overall basis. So based on the initiatives we've taken and the work that we are doing in the US market specifically and our concentration; and I've mentioned here we've had some early wins with IDNs in a new offering that we've put together, we are optimistic that we'll see that continue to improve in the back half of 2019 and we will update you later in the year on that.

Yi-Dan Wang: And then there's deterioration in the NPC in the US, was that, did that start with the manufacturing issues or had it been going on for quite some time in the US? So what I'm asking is do you think that your products and your sales initiatives absent of the manufacturing issues, you would be able to recover the NPC?

Rick Anderson: No, I understand but…

Frank Schulkes: You know, I can take that. So we've seen, if you go back several years a deterioration of NPC and then it started to stabilise and in fact started to crawl up. And so that there was a trend to change and then the supply issues in Haina came. So that started a further slow reduction of NPC.

So in fact the business was starting to change and then had to step back related to, or driven by the Haina supply issues. So given that there was a proof point there, we firmly believe that we will be able to stabilise again and start to grow, but this will go at a very different pace than for instance what we're seeing in wound.

As Rick says this business moves at a glacial pace, so it will be a longer horizon when we will see that happen. But we have some proof points of basically '17 before the Haina issues started and things have, can go, can stabilise and go up.

Rick Anderson: Yeah, I would just mention, go back to our February comment, our supply issue that we had from the Haina issue that goes back a year or two now hurt us deeply and we commented on that in February and it is important for us to be a more reliable supplier to our customers and these patients because at the end of every one of these products is a patient and it's incredibly important for us to do that. And we have been working very hard to ensure both at a customer and at a patient level that they can depend on us to deliver on that.

And that gives us some confidence that the fracture point, even though this market does move at a glacial pace, we feel good about our ability to supply our customers and our teams are working really hard to increase the demand for our product.

Yi-Dan Wang: Just one last follow up if I may? So does that mean that the competitive environment has increased since your manufacturing issues? So has the rate of the deterioration in your NPC been stable? And if it were declining at, I don't know X per cent, is it still at that X per cent or is it X plus per cent now? Or may even be X minus given that you've seen some improvements already.

Frank Schulkes: Well the data is always delayed, so I don't have Q1 data yet, okay, so I can only comment on 2018 data and basically it has been a pretty stable decline, so not a…

Yi-Dan Wang: Okay, so not an accelerating decline?

Frank Schulkes: No, no.

Yi-Dan Wang: Okay, thank you very much, that's really helpful.

Operator: That was out final question today. I will hand back to you now Rick.

Rick Anderson: Thank you Todd. Well thank you everyone for participating today. We appreciate the opportunity to give you an update and we look forward to continuing to do so in the individual calls. Our teams are at the ready to be able to respond to you if additional questions are there and we look forward to our mid year update in August. Thank you very much.

[END OF TRANSCRIPT]