ConvaTec

Trading Update for the three months ended 31 March 2019

3 May, 2019 (LSE: CTEC)

Trading in the first quarter for ConvaTec Group Plc ("the Group"), a leading global medical products and technologies company, was in-line with management expectations at a Group level and reflected the ongoing challenges outlined in February.

Key Points:

- Group revenue of $430.6 million included an additional one-off provision in the quarter of $8.9 million, arising from a change of accounting methodology as detailed below. Excluding this, first quarter Group revenue was broadly flat on an organic basis.
  - Including this provision Group revenue declined 2.0%[1] on an organic basis, 1.9%[2] on a constant currency basis and 6.0% on a reported basis.
- FY2019 guidance unchanged.
- Transformation Initiative: momentum building, almost 300 leaders trained in transformation.
- Franchise summary:
  - Advanced Wound Care: ongoing drag from legacy portfolio and continuing trends from Q4 '18 - underperformance in the US and negative channel movements in the UK – more than offset good demand for AQUACEL® Ag + / Advantage; Avelle™ launched in US; deploying specialist salesforce in US;
  - Ostomy Care: good performance in LatAm and APAC, continued weakness in the US.
  - Continence and Critical Care: Continence continuing to drive growth.
  - Infusion Devices: higher than anticipated customer orders resulted in a good performance against a strong prior year comparator.

	Q1 2019 Reported $'m	Q1 2018 Reported $'m	Reported growth %	Organic growth[1] %	Organic growth[1,3] % ex. rebate provision
Advanced Wound Care	129.7	147.1	(11.8)	(6.8)	(3.2)
Ostomy Care	119.6	128.0	(6.5)	(0.8)	0.9
Continence & Critical Care	108.4	108.4	0.0	1.8	3.1
Infusion Devices	72.9	74.7	(2.4)	(0.2)	(0.2)
Total revenue	**430.6**	**458.2**	**(6.0)**	**(2.0)**	**(0.1)**

Rick Anderson, Group Chief Executive Officer, commented:

"Trading in the first quarter was in-line with our expectations, which reflect the challenges we outlined at our full year results in February.

"Whilst our US AWC business continues to show weakness and I am impatient for change, we have put in place the building blocks to deliver improved revenue growth throughout the rest of the year. We have become more segment focused, moving to a specialist salesforce model and focusing more of our firepower on the largest opportunities.

1. Organic growth presents year on year growth at constant exchange rates, excluding M&A.
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3. Excluding one-off provision to revise the estimate of the distributor rebates accrual.

"Within Continence and Critical Care, our Continence business continues to drive franchise growth, whilst Infusion Devices saw strong levels of orders in the first quarter.

"Momentum is building in our Transformation Initiative, the single most important programme within ConvaTec, engaging our people through 75 workshops in the past 2 months and bringing more discipline to our business model, with almost 300 leaders now trained in transformation. We will provide more detail with our interim results in August.

"My priority remains improving execution. Our focus on this, along with our solid fundamentals and robust cash flows, mean that I am confident we can deliver the improved performance that shareholders and other stakeholders rightly expect."

Group revenue

Group total revenue of $430.6 million declined 2.0%[1] on an organic basis and was broadly flat year on year, excluding a one-off provision to revise the estimate of the distributor rebates accrual. At constant exchange rates, total Group revenue was 1.9%[2] lower year on year, and 6.0% lower on a reported basis due to unfavourable foreign exchange movements.

As part of ongoing improvements to methodology and data, we have revised our accounting methodology to estimate expected discount claims by distributors in the US. This resulted in an additional one-off provision of $8.9 million being taken in the quarter, which reduced first quarter Group revenue growth by 190 bps. On a franchise basis, the impact of the one-off accrual reduced AWC growth by 360 bps in the quarter, for OC the reduction was 170 bps and for CCC it was 130 bps.

The following revenue growth numbers all refer to organic year on year growth at constant exchange rates, excluding M&A and the one-off provision described above.

Advanced Wound Care

Revenue of $129.7 million declined by 3.2%[1, 3] organically compared to the first quarter of 2018.

Performance in AWC in the first quarter was impacted by two main items: a weak performance from the skincare business and continuing trends from Q4 2018 - underperformance in the US and negative channel movements in the UK.

The combined drag on growth from our older DuoDERM™ and base AQUACEL™ Hydrofiber™ products reduced slightly in the quarter, compared to the prior year, although our skin care business (around 6% of franchise revenue) showed continued weakness and negatively impacted franchise organic growth by around 200 bps in the quarter.

In the UK despite some stocking initiated by the NHS in preparation for Brexit, we continued to see negative year on year channel inventory movements in the quarter, as outlined in our February announcement. We continue to see challenging market dynamics in the UK.

AQUACEL™ anti-biofilm silver delivered good growth in the quarter, following the launch of AQUACEL™ Ag Advantage in the US last year. We also saw good growth in our emerging markets in APAC and Latin America.

As previously outlined, we have modified our commercial approach in the US and our specialist salesforce model is now in place, focused around disease state, and we continue to build out our specialist sales team. This new model will drive in-market demand, address performance issues and improve targeting and salesforce effectiveness. We have completed our segmentation, and in areas where the new specialist sales teams have been deployed we are seeing a significant increase in calls

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to the largest IDNs (Integrated Delivery Networks). We are also delivering a more targeted launch of Avelle™ and initial wins from large IDNs is encouraging.

The financial benefits of these actions will take time to ramp up but we anticipate an improving revenue performance in the US AWC business throughout the rest of 2019.

Ostomy Care
Revenue of $119.6 million grew by 0.9%[1,3] organically compared to the first quarter of 2018.

Performance in the first quarter reflected weakness in the US, as outlined in our February announcement. To address this, we have flattened our sales structure to get closer to the customer, and are implementing changes to our commercial approach, including revised segmentation and targeting of our salesforce to focus on the most significant opportunities in the largest IDNs.

We saw good performances in Latin America and Asia Pacific during the quarter and continuing positive trends in some smaller European markets. We continue to see good momentum in our newer Convex products.

We continue to invest in our me+ platform, driving momentum in me+™ patient enrolment.

The Premier GPO contract for Ostomy has been extended to the end of March 2020 – previously end of December 2019 - and we are actively engaged in the contract renewal process.

Continence & Critical Care
Revenue of $108.4 million grew by 3.1%[1,3] organically compared to the first quarter of 2018. Revenue included a contribution of $1.3 million from J&R Medical, which was acquired on 1 March 2018. The Group also divested its Symbius Medical respiratory business on 1 March 2018.

Continence Care continued to drive overall franchise growth. HDG performed well, growing above the overall US continence market.

Infusion Devices
Revenue of $72.9 million declined 0.2%[1] year on year on an organic basis, driven by strong customer orders offset by a robust prior year comparator.

We have completed installation of our automated production lines for MiniMed™ Mio™ Advance*, to significantly boost production volumes to meet strong end user demand, although as previously outlined this will have a dilutive impact on margin this year.

We also continue to explore applications beyond insulin therapy with our neria™ guard infusion set.

Transformation Initiative
We have made good progress with our Transformation Initiative, announced in February. Momentum is building in each of our four workstreams: Commercial Excellence, Operational Excellence, Businesses Services Transformation and Portfolio Optimisation. We are bringing more discipline to our business model, and a "ConvaTec way" is beginning to emerge through engagement of our people in 75 workshops, with almost 300 leaders now trained in transformation.

People
As announced on March 25, Karim Bitar has been appointed as Chief Executive Officer with an effective date of 30 September, 2019. Since 2011 he has been Chief Executive Officer of Genus Plc, a leading global agricultural biotechnology company focused on animal genetics.

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* MiniMed™ Mio™ Advance - trademarks of Medtronic MiniMed Inc.

Outlook and guidance

The outlook for the Group for FY2019 is unchanged from that announced at the time of the FY2018 results on 14 February 2019.

- Organic revenue growth of 1.0% to 2.5%[1]
- Adjusted EBIT margin 18% to 20%, including $50 million of operational spend associated with the Transformation Initiative and Medical Device Regulation (MDR). Excluding these costs, adjusted EBIT margin would be 21.0% to 22.5%.

There will be a webcast for UK analysts & investors today at 09:00 BST which can be accessed via the ConvaTec website www.convatecgroup.com/investors/reports/ A recording will be available on the site shortly afterwards.

There is also a conference call facility:

- *Telephone number: UK + 44 20 3936 2999; US + 1 646 664 1960*
- *Passcode: 800793*

The presentation for the call can be downloaded at: www.convatecgroup.com/investors/reports/

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Revenue by Geography

	Q1 2019 Reported $'m	Q1 2018 Reported $'m	Reported growth %	Organic growth[1] %	Organic growth[1,3] % ex. rebate provision
Americas	220.9	234.3	(5.7)	(5.0)	(1.2)
EMEA	176.9	192.2	(8.0)	(0.2)	(0.2)
APAC	32.8	31.7	3.5	8.9	8.9
Total revenue	**430.6**	**458.2**	**(6.0)**	**(2.0)**	**(0.1)**

Revenue in Americas declined 1.2%[1,3] on an organic basis. Growth from HDG was offset by a weaker AWC and Ostomy performance, as noted above. On a reported basis, revenue was 5.7% lower, reflecting the distributor rebate provision which reduced growth by 380 bps and unfavourable foreign exchange impacts, partially offset by the inclusion of J&R Medical.

Revenue in Europe, Middle East and Africa was 0.2%[1] lower on an organic basis as a result of lower AWC growth, primarily in the UK, partially offset by growth in CCC and ID. On a reported basis, revenue was 8.0% lower due to unfavourable foreign exchange movements.

Revenue in Asia Pacific grew 8.9%[1] on an organic basis, primarily driven by OC and AWC, partially offset by CCC. On a reported basis revenue grew 3.5% due to unfavourable foreign exchange movements.

Foreign exchange rates

	Q1 2019 Average	Q1 2018 Average
USD/GBP	1.30	1.39
USD/EUR	1.14	1.23

About ConvaTec

ConvaTec is a global medical products and technologies company focused on therapies for the management of chronic conditions, with leading market positions in advanced wound care, ostomy care, continence and critical care, and infusion devices. Our products provide a range of clinical and economic benefits including infection prevention, protection of at-risk skin, improved patient outcomes and reduced total cost of care. To learn more about ConvaTec, please visit www.convatecgroup.com where a copy of this announcement can also be found.

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Forward Looking Statements

This document includes statements that are, or may be deemed to be, “forward looking statements”. These forward-looking statements involve known and unknown risks and uncertainties, many of which are beyond the Group’s control. “Forward-looking statements” are sometimes identified by the use of forward-looking terminology, including the terms “believes”, “estimates”, “aims” “anticipates”, “expects”, “intends”, “plans”, “predicts”, “may”, “will”, “could”, “shall”, “risk”, “targets”, forecasts”, “should”, “guidance”, “continues”, “assumes” or “positioned” or, in each case, their negative or other variations or comparable terminology. These forward-looking statements include all matters that are not historical facts. They appear in a number of places and include, but are not limited to, statements regarding the Group’s intentions, beliefs or current expectations concerning, amongst other things, results of operations, financial condition, liquidity, prospects, growth, strategies and dividend policy of the Group and the industry in which it operates.

By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. These statements are necessarily based upon a number of estimates and assumptions that, while considered reasonable by the Company, are inherently subject to significant business, economic and competitive uncertainties and contingencies. As such, no assurance can be given that such future results, including guidance provided by the Group, will be achieved; actual events or results may differ materially as a result of risks and uncertainties facing the Group. Such risks and uncertainties could cause actual results to vary materially from the future results indicated, expressed, or implied in such forward-looking statements. Forward-looking statements are not guarantees of future performance and the actual results of operations, financial condition and liquidity, and the development of the industry in which the Group operates, may differ materially from those made in or suggested by the forward-looking statements set out in this Presentation. Past performance of the Group cannot be relied on as a guide to future performance. Forward-looking statements speak only as at the date of this document and the Company and its directors, officers, employees, agents, affiliates and advisers expressly disclaim any obligations or undertaking to release any update of, or revisions to, any forward-looking statements in this document.