ConvaTec Q3 2018 Trading Update and Guidance Change

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Introduction

John Crosse

Vice President, Investor Relations, ConvaTec

Good morning everyone, it is John Cross, VP of Investor Relations. Thank you for joining us at short notice for this call. I would direct you to the forward-looking statement we have in our releases from this morning, and I will hand your straight over to our CFO, Frank Schulkes.

Agenda

Frank Schulkes

Chief Financial Officer, ConvaTec

Great, thanks John. Good morning everyone and thank you for joining this call at this short notice. This is Frank Schulkes, CFO, and I'm joined by our Chairman, Sir Christopher Gent. I hope you have had a chance to see the two RNS announcements we issued earlier today, one updating on Q3 trading and revising our full-year guidance, and the other announcing management changes.

I will run through the Q3 numbers and guidance, but before I do that Sir Christopher has some comments to make on the management changes.

Management Changes

Sir Christopher Gent

Non-Executive Chairman, ConvaTec

Chief Executive Retires

Thank you, Frank. Good morning everyone, I too thank you for joining us. Along with our announcements of the Q3 performance and revised guidance, you will have seen that we have announced this morning the retirement from the Company of the Chief Executive Paul Moraviec with effect from last Friday evening.

During his tenure as Chief Executive, which commenced in 2014, Paul made important contributions to dealing with the challenges that the business faced at that time. These challenges were overcome, and in addition he developed an effective commercial strategy as well as leading the Company through its IPO. We wish him well in his retirement.

Interim CEO Appointed

It is now time for next stage of the Company's development. The Board has appointed Rick Anderson as its interim CEO. Rick has 25 years of senior executive leadership experience in the medical device industry, including ten years at Johnson & Johnson and the last ten years, a CEO of a leading healthcare investment fund. He has immediate and close knowledge of ConvaTec, as he has been on the Board for the last two years since our IPO. Rick will be very hands-on in this role, driving the business forward with full support of the Executive team and the Board; he will be full time.

Search on for Permanent CEO

At the same time, I, together with Steve Holliday, our Deputy Chairman and Senior Independent Director, will lead a process to find and appoint a permanent successor for the

CEO role. A search company is already appointed, and we expect to receive an initial list of potential candidates later this month. We will say more on this topic at an appropriate time.

I wish to reiterate that ConvaTec has a fundamental sound business with good potential for growth and creation of shareholder value for the future. As ever, I am very happy to be available to shareholders on any questions they may have about this announcement.

I would like to hand back to Frank, who will give you more details on the figures and take questions on the trading update.

Q3 Trading Update and Guidance Change

Frank Schulkes

Chief Financial Officer, ConvaTec

Q3 2018 Key Points

FY 2018 guidance revised

Thank you, Sir Christopher. On slide 2, the headlines for the first quarter. We are adjusting our full-year guidance for both revenue and adjusted EBIT margin. This is primarily because we were recently made aware of a material change in inventory policy by our biggest customer in ID effective immediately, that will have a significant negative impact on orders in Q4. This is expected to lead to fall in revenue in the fourth quarter of between $18-23 million.

We have also seen challenging dynamics in some Wound Care markets, evidenced by a weaker than anticipated Q3 performance. As a result, we are lowering our revenue guidance for 2018 to 0–1% organic growth.

So the basis for this changing guidance is largely driven by the sudden drop in ID – about 130 basis points; risks in Wound account for about 40–45 basis points; and then risks in Ostomy plus some CCC recall risk, the rest.

Largely as a result of these revenue changes and consequent adverse mix effects, guidance for adjusted EBIT margin in 2018 is now 23–24%.

Q3 Group revenue

Referring to the Q3 numbers, after a solid first half broadly in line with expectations, in Q3 we saw a significant lower level of revenue growth of 0.4%. Whilst we saw an improved performance in Ostomy, the overall result was clearly very disappointing. Q3 Group revenue came in at $452 million, which is growth of 0.4% organic, 2.9% on a constant exchange rate basis and 1.5% reported.

Ostomy Care delivered an improved revenue performance versus second quarter and first half as indicated the last time we spoke in August, although the improvement was not as much as we had anticipated.

Advanced Wound Care showed a marginal improvement versus Q2 against a weaker comp, with challenging dynamics in the US and UK leading to a disappointing performance.

CCC was impacted by the Slovakia packaging recall, which we outlined in August. This had around $3.5 million revenue impact in the quarter, and we expect some of that will come back in Q4. I will talk more about that in a moment.

As you know, Infusion Devices can be lumpy, and we expected a decline in revenue this quarter. We had significant tailwinds in the first half of 2018 and a tough comp from Q3 last year when we grew over 17%.

Franchise Summary

On slide 3 is the franchise summary:

- Advanced Wound Care grew 0.8% on an organic basis;
- Ostomy Care grew 1.5% – as I said, both improving versus the second quarter;
- CCC grew 1.4% which was slower than the first half, reflecting the impact of the Slovakia packaging recall, which will rebound in Q4;
- ID declined 3.7% which was expected, given the significant tailwinds we had in the first half, as well as a tough comp.

Advanced Wound Care

Growth below expectations

Going into the franchises in more detail, firstly Advanced Wound Care, we continue to see a good performance from Ag+ anti-biofilm and Foam. As we expected at the half year, our legacy products of DuoDERM and Base AQUACEL began normalising in Q3. That meant they were less of a drag on overall franchise growth, but our skincare business remained a drag on growth due to competitive prices in the US. As we said before, these three legacy products make up about 40% of franchise revenues.

Surgical cover dressing is recovering from supply issues in 2017 and growing this year, but it is at a much lower pace that we had forecasted.

And in the UK, we continued to see some challenging market dynamics, including NHS supply chain tendering activity and some timing of orders in Germany and the Middle East. This month, we launched AQUACEL Ag Advantage in the US following our 510k approval in August.

So, overall a modest improvement for Wound in Q3 versus Q2, but at a slower pace than we expected.

Ostomy Care

New products and impact of patient losses

Turning to Ostomy Care on slide 5, growth improved as we began to analyse the patient losses and supply issues we experienced in the second half of last year. However, we expect the impact from patient losses in 2018 to Group revenue growth to be at the top end of the 50–100 basis points range we previously guided.

We saw a good performance in Latin America and Asia Pacific, including China, and positive trends in some smaller European markets during the quarter. We saw a continuing strong performance from new products: Accordion Flange, Esteem+ Flex Convex and EuroTec's Varimate strips; me+ momentum continues with strong patient enrolments. We were also pleased to have agreed a two-year extension to the Vizient GPO contract for Ostomy in the US. This contract now runs until June 2021.

For Q4, we have a tougher comp as we had a large order in Japan at the end of last year, plus we see some downside risk around a couple of distributor orders as well as the retail channel in the US.

Continence and Care

Strong underlying momentum offset by expected headwinds

In CCC, our Home Distribution Group again delivered good growth with GentleCath Glide performing well in the US. Revenue growth was impacted, as expected, by the packaging recall in our Slovakia plant to the tune of about $3.5 million. Around two-thirds of that is orders on hold – orders we have received but we cannot yet fulfil due to product availability – and then one-third is lost orders. The orders on hold should reduce in Q4, which will be a tailwind to growth. Around 70% of the affected products in Slovakia have now been repackaged and released to market, and we anticipate that the vast majority of the remaining 30% will be done by the end of the year.

We continue to expect the full revenue impact for the year will be less than $5 million. There will be a margin impact of about $4 million related to this recall in terms of inventory write-offs and expedited shipping costs getting the products back into the market. Our ongoing product rationalisation programme had a small impact of around $0.5 million in the quarter.

Referring to future growth opportunities, the female version of our next gen catheter is already CE marked and will be launched in our first European market in the next few weeks. We have had great feedback from patients who have tried it, and launch activity will ramp up over the coming months and into 2019. We will take a measured approach to rolling out country by country. This will be a slow burn as we build momentum, and Europe remains a very attractive opportunity for us.

Infusion Devices

Performance impacted by inventory changes and ordering patterns

Turning to ID on slide 7, we continue to see good underlying demand in the insulin pump market. The Q3 performance in ID reflects strong tailwinds in the first half of this year as well as the tough comp versus the last year, as I mentioned previously.

The change in inventory policy by our biggest customer has led us to anticipate significant distortions to expected ordering patterns with a material reduction in Q4. As I said, this is expected to lead to lower revenues than we had planned in the fourth quarter of between $18–23 million. Our business we expected to be growing 4–4.5% this year will be declining 4–5% instead.

Summary and Outlook

Q3 2018

In summary on slide 8:

- We saw a sequential improvement in Ostomy Care;
- Advanced Wound Care performance in Q3 was disappointing with continued challenges in the US and UK in particular;

- Continence and Critical Care saw good underlying growth, but was impacted by the Slovakia packaging recall and some product rationalisation;
- Infusion Devices performance reflects the tailwind seen in the first half and a tough comp year over year.

FY 2018 Outlook

Looking forward, we anticipate $18–23 million lower revenue in Q4 in ID due to the change in inventory policy by our biggest customer. On top of that, we see some additional challeng to Q4 mostly in Advanced Wound Care, so we now expect full-year 2018 organic revenue growth to be between flat and 1%.

Largely as a result of these revenue changes and adverse mix impacts, adjusted EBIT margin guidance is now 23–24%.

To finish, some information on our cost-out programme. We are developing a strong cost-out programme with a five-year horizon, and cost-out opportunities in the five categories: manufacturing excellence, sourcing, supply chain, footprint and simplification. We have improved our project management capability and have started to execute projects in the follow-up.

In light of today's leadership announcement, we have decided to provide this update alongside our 2018 Annual Results announcement in February 2019 instead of later in Q4 2018. We will now take any questions you have.

Q&A

Ian Douglas-Pennant (UBS): Firstly, on the ID issues, could you give us some confidence here that these Medtronic issues will not leak into next year? Clearly there are some new suppliers haggling for their business, or can you give us the confidence that this is not preceding a wider decline in demand for your products?

Secondly, on the cost-saving programme, why have you decided to announce that you are going to do that in February? Why not wait for the new CEO?

Finally a question for Chris, could you comment on what you are looking for in the new CEO? Are you looking internally or externally? Are you looking for somebody from the industry or outside; some colour on the criteria there, please?

Frank Schulkes: On the ID, we heard about a week ago from the customer that they were planning a significant change. Then at the end of last week we received more details, that indeed they were going for a very aggressive inventory target that changed. The information we have received from them is that they will execute this during Q4, and that is the information I have at the moment. The overall insulin pump market is continuing to perform very well. We have a great long-term partnership and development of projects and products with this customer for the long-term, so we don't see anything else in it than just a radical change in inventory policy.

The thing that is for 2019 if you think about the impact, at this moment we do not think there is an additional impact. However, as you know, Animas is leaving the pump market, and the business of Animas will be divided over the remaining pump manufacturers. We expect, of course, that a portion of this, although a smaller portion, will go also into patch pump manufacturers. So, there will be an impact there, and on top of that there is going to be Animas inventory in the channels that needs to be flushed out. Of course, we have to see how the Tandems and the Medtronics of this world are going to deal with that, but we stay in close touch with them. At this moment, that is the information we have.

Related to the cost savings, we are developing the programme over five years. As you know, we are already executing some of the projects in 2018 and in 2019 as well, so we want to make sure that indeed, a new CEO will get input into this. At the same time, we do not want to continue to postpone this, because we have a good programme in development; we are executing on it. Therefore, with the Board we have decided to postpone, but in principle we are going to have this presented in mid-February. At this moment, I would say even if the new CEO is not there, we have, of course, Rick Anderson as an interim CEO, who is going to drive the business forward with the team; this is not just an acting role. Therefore, we have decided to go ahead mid-February.

Sir Christopher Gent: Just picking up on that, obviously Rick starts today and he will want to look at the programmes in detail. That will be reviewed with the Board, so that what you hear about in February will be something which is both approved and supported by the Board, because there may well be capital to be spent in order to achieve the improvement in productivity that we are seeking.

With regard to the announcement, Rick is a very experienced executive and he will be driving the business full time. In the meantime, we will be setting out to find a permanent replacement. However, obviously the potential candidates may be on contracts themselves, so there will be inevitably some delay in bringing somebody through as the next Chief Executive.

With respect to where we are looking, I think you would expect to see an external candidate appointed. We are looking at people not just from the med-tech industry, but in related industries which expands the scope of the people that we might be looking at. That programme is underway, the search company is already appointed, and we look forward to receiving some initial suggestions from them later this month.

Veronika Dubajova (Goldman Sachs): My first question is trying to do a little bit of a post-mortem here and understand a bit better, Frank, what you think has gone wrong, because the messaging from you post-Q2 in August and then also in September was that the business was seeing an improvement. What would be helpful to understand is, is it that September was very poor, or is it instead that the improvement you thought you were seeing actually was not materialising?

That would be helpful if you could talk about that, and relative or related to that also comment on how you feel your internal forecasting and communication is working, because it is quite surprising to see this magnitude of a downgrade for the business at this late a stage of the year. That is my first question.

My second question is as you think about 2019, I think you had some pretty ambitious targets for the Wound Care business returning back to market growth in Q4. That is clearly not going to be the case; the Ostomy business is maybe seeing slightly slower momentum than you had anticipated. Help us thing through some of the pulls and pushes on the organic revenue growth side for those two divisions as you look at 2019.

Frank Schulkes: On the post-mortem here, first of all, of course, the ID one was clearly a complete surprise to everybody, so that was late-breaking last week.

If we then think about Wound, in the summer we have had discussions that the Wound business, specifically in the US, to a lesser extent in Europe, needed an improvement in the second half versus the run rate that we have seen in the first half, and that it needed to be a pretty significant one. In September, we basically saw that run rate coming out of Q3 was going to be extremely tough. Then when we closed Q3, we had another round of reviews with all the businesses towards the end of last week, understanding what was going on in Q3, why we did not see the run rate improve, and, of course, extrapolating that to the consequences for Q4. That is basically why, at this moment, we see enough risk that Wound is a contributing factor to us coming off guidance.

If we think then about our forecasting capability, I think in the end it probably comes down to commercial judgement being too optimistic: looking at opportunities, perhaps not focused enough on risk mitigation or realisation of that with the commercial teams and the leadership in general. Clearly we have some work to do there, and we are going to need to improve that collectively as a team. In the end, the commercial optimism became too positive and we couldn’t realise the numbers that we thought we could realise in this summer.

The outlook for 2019, I do not want to get into a 2019 discussion here. The only thing I can tell you is, of course, based on what we are experiencing here is that, as you already mentioned, the exit rate of Wound will not be market levels, which is what we forecasted before; exit rate coming out of 2018 will be lower. We will see gross cost-out benefits hitting our P&L; it will not be a linear function. Then we are continuing to launch products, so we will continue also to invest behind those products and invest in commercial activities. The expectation here is that OPEX as a percentage of sales will go up next year.

Now, we have to work through how all these variables are going to pan out. In the next coming weeks, we are going to have our budget reviews with all the regions, the franchises and the functions. We will report out on that when we do our guidance in mid-February.

Veronika Dubajova: In my final question, I think Paul alluded to potentially reviewing the shape of the portfolio with regards to Critical Care. I suspect that review is now going on hold, but can you confirm whether that is the case or whether it is still ongoing?

Frank Schulkes: I think with Rick coming in as an interim CEO, we are going to go full steam ahead driving the business. As part of that, the review of that portfolio will also continue.

Paul Cuddon (Numis): What are the Q4 expectations for Ostomy, please? I think you cited a range of potential variables, and what are you factoring into the base case assumption for Ostomy in Q4 in your 0–1% range, please?

Secondly, where are we on a permanent Franchise President for Wound Care?

Frank Schulkes: On Ostomy, we saw a small sequential improvement in Q3, but that was on an easy comp, given that last year was negative. Q4 comp will be a little tougher, because we had last year in Q4 a big Japanese order. The range, I am not going to give you specifics here, but do not expect growth for Ostomy in 2018; that is perhaps the best way to describe it. It might be slightly negative, and the reason for that is, as I mentioned, there are some distributor orders that might be pushed out. We can see that in Europe, as well as some in the retail channel in the US. Just over $1.4 million of change in the numbers is already 100 basis points change in organic growth in Ostomy, so in fact very small numbers drive pretty significant year-over-year basis points changes.

On the franchise leadership, we have announced a new leader for the Wound franchise; David Shepherd will start the end of November, and he is joining us from J&J.

Kit Lee (Jefferies): You mentioned the headwind in the UK in your Advanced Wound Care business. How do you think about this headwind going into 2019, and how do you aim to operate in this environment?

Frank Schulkes: The UK has been a very challenging environment for a couple of reasons. The first one is it is an environment that is largely focused on price, to be honest. The value of products is seen as less important, and we see that also very clearly in the way the NHS, for instance, is behaving with very big price cuts, specifically in the Wound portfolio.

The second dynamic in the UK is that there are a lot of smaller players. There are several players that are low-cost type manufacturers that are nibbling at our market share, so we have lost some market share in the UK market as a result of that. At this moment, we do not see this going away in 2019, but of course we will continue to try to sell the value with economic and clinical data. I do not think this trend that we see is going to be a very long-term trend, but at this moment we are suffering from it. We will counter by selling our products including clinical and economic evidence to counter those types of activities.

Kit Lee: Secondly, can you talk more about your catheter launch in Europe? What is going to be the launch process? Is it going to be a gradual rollout? I think you mentioned the female version was approved, so what about the male catheter?

Frank Schulkes: The female version is CE marked, is in patients, and we have received very positive feedback on this product. We are going for a gradual rollout, so it is not going to be a full-blown European rollout. We have targeted one of the big markets in Europe. I do not want to tell you which market it is; I do not want to give that information away to the competition. Basically, that will be happening in the next couple of weeks. Then throughout 2019, we are going to target other markets, and of course we are going to invest behind that in terms of sales, supports etc.

The male version is coming out in 2019, but at this moment we cannot give you a specific date on that yet.

Chris Gretler (Credit Suisse): I have two questions to the Chairman, since we rarely have the opportunity to have Mr Gent on the call. The first would be I was hoping to get your opinion on the speed of the management changes here in ConvaTec. So, now we are two years into the IPO we have seen a new CEO, a new CFO, a new head of Wound Care, I think a new head of the US today. I have rarely seen such a fast change in management positions at ConvaTec. I was wondering what your opinion was on this matter and how problematic this is, because in my experience at least, I have rarely seen a great company performing with such strong turmoil. That would be my first question.

Sir Christopher Gent: Clearly when we commenced as a public company, the Board worked with the Chief Executive to discuss whether the people within this leadership team were of the right calibre to take the business forward. There were identified some changes needed at that point. With respect to the CFO, he had clearly indicated that he did not wish to move to the location in the UK which would mean he could work as an effective business partner to the Chief Executive. Therefore, that was a decision on his part, and he stepped down as a result of that and Frank was recruited as his replacement.

With respect to some of the other positions, there was concern about commercial effectiveness and the need to improve the calibre of the people who were driving commercial effectiveness in the business. This necessarily takes a little time. You are right, it is not the best circumstance, but I believe what we now have is an improvement in the key positions in respect to the franchises. Remember this is a business that we want to move towards franchises becoming, over time, business units. That increases the requirement for higher calibre people to drive the franchises forward.

On reflection, one would have to say that this business performance has been disappointing. Therefore, we needed to upgrade and increase the focus on effective commercial execution in the franchises. I do not make any apology for this. It is obviously not desirable to have too much turmoil. However, it is critical that we do have effective leadership within the business, and that is what the Board is seeking to achieve with the assistance of management. We have a very strong HR director now, and we are working with the Company to try and up the capability of the people who give business leadership.

I would say to you that both Frank and Sean McGrath, the HR director, are very much important building blocks for the future. We now obviously will be seeking an effective new Chief Executive who will take the business on to the next stage of its development.

Chris Gretler: My second question is basically a bit of an extension. You are practically – right that the Board continues to have confidence in the fundamentals of the business. If I look at the business things again – the IPO – basically that has barely any underlying growth, no margin in contrast to what was our original expectation. Actually, it came down rather significantly, if I look at your new 2018 guidance. Could you now share with us the thoughts of the Board here, and why you have such strong confidence in the fundamentals, because at least so far, what I have seen of the Company delivering as a public company has not been on par with that?

Sir Christopher Gent: I agree with you. Clearly, we are disappointed with the performance. I believe that there has been a degree of over-optimism in the assessment of the potential of the business. Part of what we are trying to do is ensure a new realism, so that we have an appropriate foundation for making progress and for informing you, the investors. I think the changes that have occurred have in part been driven by the Board, but also by a realisation that we have to rebase to move forward in a much more effective way. I can assure you that Rick Anderson is a very experienced executive in this space, and he will be leading the charge, strongly supported by the Board and the Executive team. However, I cannot hide the fact that we share your disappointment.

Martin Hall (Hardman & Co): Frank, the change in inventories that you have highlighted is quite dramatic. I was wondering if you could give us some guide. What is the distributor level of inventory days going from and to by the change that they are making?

Frank Schulkes: We have not received any input from our customer how many days of inventory they have. Of course, they manage a wide variety of channels in a global setting, so we do not have any insight in that. We have received from them the impact in orders for Q4, and they have given us some idea that, dependant on channel, they want to go to certain targets. However, that was more illustrative than anything else. As you imagine, given the size of this, they are going for a pretty drastic change in inventory and management, and they are going to go at it with a lot of speed. It is tough for me to answer that because we do not have that specific information, given that there is a variety of channels they manage worldwide, but it is a drastic change versus their current way of operating.

Sir Christopher Gent: I think you also have to remember that there has been a change in how many companies are operating in that market, and I think that has yet to be flushed out. They have certainly taken very strong action which has impact on us, but this will play out a bit over the next quarter or so.

Patrick Wood (Bank of America Merrill Lynch): Could you give us some confidence that the covenants, associated with the debt that you have, will not be impacted in any way by the current update in terms of cash flow and in terms of the structure of the business? It would be helpful to get an understanding of what is going on there.

Frank Schulkes: We do not expect any breach – not even close – and we still expect that our leverage will be below 3x by the end of the year, based on this change in guidance. We are still a very cash generative business, so no concerns at all in that area.

Alex Gibson (Morgan Stanley): I have two, the first one on Continence & Critical Care. When you talk about the underlying growth of this business being 5% plus and that it has been doing that for a couple of years, when will you have the visibility on the business actually reaching this level? Will product rationalisation continue to the same extent?

The second question on your margin expansion programme or the cost-out programme; you have been working on that for a year now. How has the programme, or your expectations of the programme changed over that time period? Are there any elements where you see more upside, more downside? Some clarity there would be helpful.

Frank Schulkes: On CCC, the underlying this quarter was 100% impacted by the recall of $3.5 million. We expect that this business will come back to normal levels of growth plus a little bit, because we will have some tailwind of the fulfilment of those backorders in Q4 already. This is a very short disruption of that trend that that business sees. We have a great HDG business in the US, and that business is performing very consistently at high level. This is just a one-quarter change in Q4; you can expect CCC to be at that level plus.

Then related to the cost-out programme, indeed we have been working with the new Operations VP on the cost-out programme; we have a great funnel. As I have said in the past, we are indeed managing this as a funnel where we look at ideas, then we look at feasibility, then we basically prepare to start executing and then we start executing. The overall programme will have an horizon of about five years with better defined programmes according to early years and more concepts in years four and five. We feel very good about that. I think throughout the year, the ideas have moved from idea stage to feasibility to ready-to-execute. As I also mentioned in August, we already are executing and seeing benefits of the gross cost then of projects in 2018. So, this is going to be very much a live programme; this is not really going to have an end date. Every year we will execute projects, build a new funnel and add projects to the funnel so it will stay alive and becomes a rolling source of contributions to gross margin, of course on top of the other variables that we see in the programme. As Sir Christopher has mentioned before, we are going to postpone this to February when we will come out with more detail.

Chris Gretler: This is an operational question. I was wondering on this Vizient GPO, whether actually the contract extension, the options you draw is now better, that it is now coming at the same condition as we had before, or there were now some price concessions or term concessions, for example.

Frank Schulkes: First of all we had an option to extend this, and we took that option. The reason that we got this extension, I think we have a great relationship over many years with Vizient. We have a strong market share in the US, and I think it is also testament how we managed through the whole backorder situation. We offered some discount, but it was a lot smaller and it has a much smaller impact versus the previous renewal that we did several years ago.

Nicholas Keher (RBC Capital Markets): Sir Christopher, the first one is just on the investment case, this IPO is actually broken now for ConvaTec. Would the Board now consider more radical options to create shareholder value, given that the Company is still, even by the CFO's ambition, should be around 3x levered by year end, but perhaps underinvested since before the IPO, to combat the challenges from peers in specific markets such as Ostomy and Wound etc., or even CCC in Europe. Actually, perhaps the good opportunity here with a reset would be to think about the four divisions or franchises you have and perhaps maybe it is time to realise value from one or two that do not fit as well with the Group as the others. Would the Board consider these kind of options now, with the share price where it is and given the events we have seen over the last year and a half?

Sir Christopher Gent: First of all, I do not necessarily think the investment thesis is broken; our execution has not been effective. We are in long-term chronic care markets, and we have a very good product setup. What we have not done is execute as effectively as we would have liked to have seen.

With respect to, are we committed to the existing strategy, it is actually a reasonably strong strategy, but we have always been open-minded about whether we would be in all of the divisions we are currently in. That kind of strategic review is something which, as a Board, we do review. Obviously, it depends upon whether there are people who are interested in whatever division positions we have, but we are flexible; we would look at anything that would cause us to think about the structure of the business and how we should go forward. By the way, that has always been the case. Yes, we think the strategy is fundamentally sound, but it is about how well we perform, and clearly, we have not been performing as well as we ought.

Nicholas Keher: The second one is to go back on Infusion Devices from the first question of the morning, just in terms of have you seen your largest customer take on perhaps a new supplier? This material change in revenue is at such short notice, can you definitively say if that customer has taken on a new supplier or not in the period, or if there has been a shift?

Sir Christopher Gent: I will hand over to Frank to do the detail, but clearly an existing supplier to the market has withdrawn, and that has created a degree of uncertainty, presumably also affecting our supplier. As far as we know, no new supplier has been taken on.

Frank Schulkes: No. I think if you look at our ID business and the relationship we have with our customers, especially the big customer we are talking about here, we have a very longstanding relationship that goes much further than a pure conversional relationship. We are co-developing products, have co-developed products and are continuing to co-develop; we have several projects in the pipeline for the future with this customer. On top of that, we just launched our new product, the Ulysses product. The customer is extremely excited about that, because their patients are extremely excited about that. So, I think from a relationship, we have a very strong relationship, very long-term relationship that goes much further than conversional. There is no indication whatsoever that we are here dealing with a possible second supplier coming in to take a sizeable piece of that business.

Justin George Varghese (Reuters): One question that I had was the impact, the news that we heard about the inventory orders declining was known at quite notice. Do you see any long-term impact from this, or is it just an immediate impact this year?

Secondly, we wanted to confirm that the bit that you had earlier said that you do not see any additional impact from this apart from the impact this year.

Frank Schulkes: As far as I know, and what has been communicated to us in the meeting that ID leadership had with the customer's leadership end of last week, was that they were planning to execute this during Q4. Of course, we stay in close contact with them, so if that changes we will know first.

Second, at this moment, the only related impact that we do not know how that is going to impact us specifically is, of course, the fact that Animas is leaving the industry, that that business will go to the Tandems and the Medtronics of this world; a piece will go to patch pumps, as I said before, and there will be Animas inventory that needs to be flushed out. How the remaining suppliers are going to deal with that inventory is, at this moment, for me not known, but we will work with our customers on that also when we are going into our planning cycle and budget cycle for 2019.

The last point I want to make is there is no change to the underlying strength of this market and the underlying strength of that. This is truly a correction driven by a very drastic inventory policy change at our biggest customer.

John Crosse: That is the last of the questions. There was one on the webcast, just to cover that one off, which was much the same as the last question we had there, so I think that one has been answered around, 'Is there the inventory reduction finished at the end of Q4? Is there an impact in 2019?' I think we have answered that one, so we will wrap up there.

Again, thank you for joining the call at short notice and please get into contact with us if you have any further questions. Thank you.

END OF TRANSCRIPT