Q4 2016 Earnings Call

Company Participants

Paul Moraviec

Nigel Clerkin

MANAGEMENT DISCUSSION SECTION

Paul Moraviec

Well, good morning, everybody. Great to see everyone here. Welcome to our maiden set of results as a London-listed company. So, I'm here with Nigel Clerkin, our CFO, and we're delighted to present this to you this morning.

I'll start with an operational review, which shows what we've been delivering in our strategy, and then Nigel will cover the financials in more depth and, in particular, provide some detail on how we're ahead of schedule on a Margin Improvement Program. And then I'll come back and explain why we're well set to take the group to the next level. After which we'll take some questions.

So, 2016 was a good year for our group in which we've continued to demonstrate momentum right across the group. First and most importantly, we're on track and our top line performance is in line with guidance that we gave at IPO. Overall, we're ahead of expectations on EBITDA and margins. We're particularly pleased to have delivered our Margin Improvement Program ahead of plan.

In our franchises, our Advanced Wound Care franchise continued to deliver a strong performance driven by our differentiated and market-leading AQUACEL product portfolio. And in Ostomy Care, our turnaround plan is being executed as we said it would. We've delivered a successful IPO, entered the FTSE 100 and completed the debt refinancing on favorable terms. All of this has been made possible by having a great team of people, many of whom you've met, and I'm confident that we've got the right team in place to make further progress in 2017.

Nigel will go through the financial details shortly, but in terms of the headlines, constant currency revenue growth of 4% was in line with our guidance at the IPO. Our Margin Improvement Program is ahead of schedule. We're pleased with the progress we've made here and the team is delivering. We've achieved 90 basis points of underlying gross margin benefit versus our initial expectation of 50 basis points at the time of the IPO. And we also saw 40 basis points of foreign exchange benefit at the gross margin level, and you can see this progress feeding through into improved profitability. At constant currency, adjusted EBITDA is up 6.5% to $508 million.

I'd like to now spend a little bit time on the franchises. What you can see on slide 5 is how we've been driving execution and how that's delivered for us across each of our franchises. Particularly noteworthy, as you can see is the 6.5% growth in Advanced Wound Care. It's our biggest franchise. The performance reflects both product and geographic growth, more of which I'll cover shortly.

We've continued to deliver on the Ostomy turnaround with 1.7% revenue growth. I remain confident that we can make significant further progress through executing a very clear strategy here. CCC had a good year in terms of revenue progress with 3.6% growth, and that's despite the impact of starting to rationalize our Hospital Care product portfolio. And ID delivered at the top of our expected range mainly because of the anticipated second-half destocking was less than expected. In short, each of the franchises delivered in line with guidance.

So, let's look at each of these in more detail. Advanced Wound Care delivered another good year of growth and contributed a third of the group's revenue. Here, the essence of the story is consistent growth across our AQUACEL product lines. We said before that our focus is to develop and sell highly-differentiated products. Doctors and nurses around the world use AQUACEL because of the outcomes that it delivers.

During the year, we delivered consistent growth across all our key AQUACEL products lines, particularly in the EMEA and the U.S. AQUACEL Foam has been a standout performer in terms of growth. As a reminder, we only entered the foam market in Q4 2012. In 2016, we delivered mid-teens revenue growth in foam in a global market worth $1.2 billion.

We continued to gain market share in many large markets around the world. It's a great example of our approach to launching and rolling out new products, leveraging our infrastructure and our capabilities. During the year, we launched AQUACEL Foam Pro and Foam Lite to access the large and attractive protection and prevention segments, and both have been very well-received.

We're building on a market leadership position with continued innovation. Indeed, in 2016, our R&D team was recognized with an award for their contribution to complex wound healing due to the development of our innovative anti-biofilm technology. We also expanded the reach of our products into new sub-segments of the surgical market, including C-sections and lumbar spine surgery.

The other highlight for Advanced Wound Care is the launch of Avelle. We've entered the fast-growing sub-segment of the sizeable NPWT market. And as most of you know, Avelle has some truly market-beating characteristics. It's disposable. It uses our proprietary AQUACEL technology delivering superior exudate management and it has significantly longer usage period than competing products delivering economic as well as clinical advantages. Avelle is now rolling out across Europe, and customer feedback has been extremely positive, demonstrating clear benefits to patients.

Looking ahead, our strategy is clear and we intend to continue its successful execution. Within our core AQUACEL offering, we'll continue to develop our differentiated extra and silver product portfolios. But there's even more we can do particularly with AQUACEL surgical where we lead this category and with our unique Ag+ anti-biofilm technology. In foam, we expect to see an accelerating contribution from foam as we go through the year. And we continue to gain traction with existing products. We'll continue to augment our product portfolio, in particular, there's much more we can do in foam with protection and prevention. And within NPWT, I'm very excited about the potential for Avelle. This product will capture share in a very attractive market. It'll take time to roll out fully, but it's a great product and the feedback from doctors, nurses and patients has been very positive. In the year ahead, we also expect to launch Avelle in the U.S. We've laid out a clear strategy and we continue to execute. We see strong growth ahead in Advanced Wound Care.

Now, to Ostomy Care, which contributes just under a third of group revenue. 2016 was a pivotal year for our Ostomy Care business. We're now executing on all of the fundamental turnaround work that we needed to deliver in order to set the franchise up for accelerated growth sand we maintained our growth momentum.

During the IPO process, we laid out a three-component strategy for the turnaround of this business. Number one, in the acute setting, to rebuild hospital and nurse engagement, our goal being to increase share of voice and increase Ostomy Care nurse knowledge and support in our products and care services with the new patients. In the important U.S. market, it was also a strategic imperative to regain the two largest acute GPO contracts.

Number two is to build a direct-to-consumer engagement platform to drive customer loyalty and to make ConvaTec the product of choice. And again, in the U.S. market, we needed to rebuild key distributor relationships. From a product point of view, we set out to build on our best-in-class adhesives while filling in portfolio gaps.

So, we performed well against these strategic imperatives. Firstly, we increased the size of our Ostomy Care sales and marketing teams in the U.S. and key European markets. And in so doing, we're rebuilding critical nurse relationships. We also successfully regained the critical U.S. acute GPO contracts with Visiant and Premier. In the UK, our me+ program is the first to be accredited as a training program for nurses to help patients get back to normal life. Secondly, we bought a state-of-the-art consumer care platform called me+. In 2016, we enrolled over 76,000 consumers in me+ globally, significantly more than we planned or even expected. Finally, we addressed the gaps in our portfolio. In particular, we successfully launched our Esteem+ Flex range of one-piece products in Japan, Italy and the Netherlands. And we started the global roll out of Flex Convex this year.

We were pleased to have completed the acquisition of EuroTec in January for €25 million. EuroTec generates €10 million of annual revenues and the strategic acquisition strengthens our Ostomy Care business in France and the Benelux region. The result of the execution of all these initiatives is continued growth in Ostomy Care of about 1.7% in constant currency in the year. This is the second year of steady growth in our Ostomy Care franchise, and it demonstrates that we now have a good and sustainable traction although we still have more to do.

So, for the year ahead, we will continue to execute on the strategy. We're going to build on the headway we made with nurses in 2016 to reconnect with them more strongly through training programs and tools, but also continue to invest and expand in our me+ and DTC coverage. Long-term consumer relationships are absolutely key to our future. We exceeded our forecast for me+ enrollments in 2016 and we'll continue to push hard here. We'll also continue to enhance our product portfolio. We're known in the market for great adhesives and we'll complement this with consumer-led design enhancements.

Moving to our CCC franchise. Again, we've had a good year, delivering revenue growth of 3.6% and CCC contributes a little over a fifth of group revenues. We made real progress in our Continence Care business. We launched GentleCath Glide in the U.S. and this product offers significant benefits to patients using our unique FeelClean technology. It reduces the residuals in mess, so users can worry less about getting residue on their clothes, hands and body.

Our innovative hydrophilic catheter technology and production approach will also enable us to provide our technology to a wider range of consumers and to compete more effectively. We've also expanded our me+ program for Continence Care, building on the success of our direct-to-consumer program in Ostomy Care. In the U.S., we will continue to leverage a highly successful 180 Medical platform to drive growth in our GentleCath portfolio. Through 180 Medical, we continue to increase market share and strengthen that position in the U.S. retailer market.

In Critical Care, we rolled out our Flexi-Seal SIGNAL product globally, helping to maintain our market-leading position and underpinning the growth here.

Going forward, we have a clear approach, and particularly with Continence, we're focused on expanding our product portfolio. We will continue to develop and leverage our 180 Medical business and the priority here, of course, is to offer the right solution to each user based on their needs. And we'll launch GentleCath outside of the U.S. at the end of the year although here, realistically, you'll only see momentum start to gather as we move through 2018.

The strength in our strategy is really the combination of a strong portfolio and the channel access. With this powerful combination we'll continue to drive strong growth and continue to take market share.

For Flexi-Seal there's more opportunity for us as the market leader. The market is still underpenetrated and by educating, training and in servicing accounts, we can expand usage and thus the market. And we'll continue with our product innovation within Flexi-Seal brand to continue to grow share by serving those underpenetrated markets.

For Hospital Care, rationalizing the portfolio is clearly an important part of the Margin Improvement Program. We expect an impact of $15 million in sales in 2017. Despite the impact on the revenues, we look forward to an enhanced profitability over time.

Our ID business had another good year growing at 4%. During the year, we strengthened existing key partnerships with companies such as Medtronic-MiniMed and Tandem and we've attracted new customers into the franchise. Our new product development strategy is on track and we continue to find new indications for our existing technology, a great example will be infusion sets for treating Parkinson's disease. We will be launching Ulysses for non-diabetes early in the second half of 2017 and for diabetes, with a key partner later in the year.

In the short-term, the strategy is consistent with what we've been focused on to-date. We will continue to work with all the leading players within the insulin pump segment and to continue to strengthen and deepen those relationships. Our R&D work will move forward with pace, looking to address new customers and end-user

needs. For example, our lantern technology, preventing potential flow occlusions, and we will look to leverage our technology for adjacent users. We see a very significant evolution in the use of infusion sets including use of devices in treatment of other indications. And while I'm not making any short-term predictions, as the very clear market leader in this area, I'm excited about what we should be able to achieve in the years ahead.

So, that's what we're doing across our franchises. And as you can see, we're executing well and we're delivering on our plans. Looking-forward, we feel very well-positioned to take our business to the next level.

The basis of our success for future years revolves around our relentless focus on R&D and innovation. As you know, this year, we successfully launched 13 new products into the market, and we'll continue our momentum with a strong pipeline that we're running across all of our franchises. We've got an exciting new product launch program for 2017 and beyond, and we're continuing to invest.

For example, we recently hired a VP of R&D for Ostomy Care and CCC. This VP has got extensive experience in consumer-led design to further advance our leadership in innovation. So, this increased consumer and patient focus in R&D will be key to the products that we deliver in the future.

So, with that, I'll hand over to Nigel to talk us through the successful implementation of our Margin Improvement Program, the detail of our financials and also our guidance for the year.

Nigel Clerkin

Thank you, Paul, and good morning, everybody. So, as you know, the Margin Improvement Program is a key strategic priority for us, so we're pleased that it's already delivering ahead of schedule. And as a result of that, we now expect to deliver approximately half of the benefit of the overall program through the course of this year.

So, just as a reminder, the purpose of the Margin Improvement Program is to drive at least a 300-basis-point increase in our margins by 2020. And I won't go over all the detail again, but as you remember, it's spread across five key initiatives as you can see on left of the page here.

So, again, as Paul went through, we've seen that the program is already delivering ahead of schedule through the course of 2016. We saw a delivery of 90 basis points in terms of performance improvement flowing from the Margin Improvement Program during the year. That's ahead of the guidance and expectation we had at the time of the IPO of around 50 basis points.

And when you look at some of the key milestones that allowed us to achieve that benefit, it included a number of things. Firstly, the closure of the two CCC plants in both Mexico and Malaysia. Secondly, we completed the expansion of our facilities in both the Dominican Republic as well as Slovakia. And we were also able to begin the transfer of some of the production lines there ahead of schedule. Thirdly, in terms of training, we've now trained approximately 2,000 of our production staff on LEAN process techniques, which means we're now about a third of the way through that training program. And then fourthly, we have now agreed between commercial and operations on exactly which products will be retained and which will be discontinued in both the Ostomy franchise as well as the CCC franchise.

And then finally, we were also able to successfully negotiate a number of third-party contracts under our sourcing excellence program.

So, again, all of that together delivered a 90-basis-point improvement, from a performance perspective, in our gross margin last year. And then, as Paul mentioned, on top of that, we further benefited by a further 40 basis points from foreign exchange movements during the year. And so, a great start to the program in its first year of implementation.

And then looking ahead into 2017, given that progress, we're now expected to deliver approximately half the benefit of the program overall through the course of this year. And some of the key milestones that we'll be

focused on delivering this year, in order to achieve that, include the completion of the closure of our plant in Greensboro later this month, the completion of process qualification at our Dominican Republic facility during the third quarter, there are also a number of key validation milestones in our Slovakia plant that we expect to achieve this year including our ostomy adhesives equipment during the third quarter and our APS closed pouch lines during the fourth quarter.

Finally, there are a number of key sourcing initiatives that we expect to complete this year under the sourcing excellence program including, in particular, an ostomy filter dual-source program that we expect to complete this quarter as well as an adhesives raw materials program that we expect to complete during the third quarter. Again, a very good start to the program delivering ahead of schedule and we look forward to continuing to implement that over the course of this year.

And so, just on the financials, as Paul mentioned upfront, we're pleased with how we performed financially during 2016. We've seen good progress on our P&L, good cash flow and a stronger balance sheet.

And just to walk you briefly through some of the key financial highlights for the year, as Paul mentioned upfront, we saw a constant currency revenue growth for the year of 4%. And from a reported perspective, our revenue growth was 2.3% and plus we did see currency headwinds of about $29 million for the year mainly coming from sterling. And gross margins, we saw 130 basis points improvement in the margin during the year. So, it rose from 59.6% in 2015 to 60.9% last year and, again, the split of that was 90 basis points from performance and 40 basis points from foreign exchange.

So good top-line growth as well as the margin expansion, along with good cost controls, led to a solid performance on both EBIT and EBITDA with our EBITDA increasing by 6.5% on constant currency to $508 million for the year and our adjusted EBIT margin expanding by 150 basis points to 28%.

From an EPS perspective, we have pro-forma adjusted EPS for the year of $0.18. That is a pro-forma calculation. So, what we've done is, as soon as the post-IPO capital structure as if it were in place for the full year and we've also reflected in that our pro-forma adjusted effective tax rate for the year of 14%. And just one thing to point out in passing that pro-forma tax rate of 14% has been calculated under a slightly different methodology to the one we used at the time of the IPO. How do we use that methodology? It would have been 12%, but, in essence, we changed the methodology to be consistent in terms of how we apply the tax effects of the various adjustments we made to arrive at pro-forma. And I'll certainly be happy to take any questions you have when we get to the Q&A.

We have another year of good strong cash conversion of approximately 80%. That is a little bit less than the 85% typical rate that we've had historically and would have expected given the impact of the Margin Improvement Program. Our net debt, we continue to delever through the end of the year. As you remember, at the end of 2015, we had a net debt ratio of 6.9 times to EBITDA and we delevered significantly as a part of the IPO and have further delevered through the end of the year and ended the year with a net debt ratio of 3.0.

Altogether, a good performance across all of the key financial metrics.

As we said, we saw constant currency revenue growth of 4% with good momentum across all four franchises. We saw in the Wound franchise constant currency growth of 6.5%; in Ostomy 1.7%; in CCC 3.6%; and Infusion Devices 4%. And then, against that, we had 1.7% drag from currency movements leading to our overall reported revenue growth of 2.3%.

On gross margin, we saw 130 basis points improvement in the margin to 60.9% for the year from 59.6% last year. And when you look at the timing of that, it was more weighted towards the second half of the year with our first-half gross margin of 58.9% rising to 62.9% for the second half of the year.

Looking ahead into this year, as I said, we'd expect to deliver approximately half of the overall MIP program benefits through the course of this year. And I think it's fair to expect to continue to see a similar pattern as we've had historically with our second-half gross margin percentage being higher than the first-half gross margin.

In terms of OpEx, there has been good solid control of operating expenses during the year. Historically, our

OpEx has typically been in the range of 33% to 34% of sales. Last year, it was actually slightly below that range. It came in at 32.9% of sales. I think, looking ahead into this year, it's probably more realistic for you to expect that it would return to that historic range of the 33% to 34%. And then on top of that, as we had said before, we will have incremental cost this year of about $15 million from becoming a public company, so do bear that in mind when you're doing your modeling.

When you put that all together, in terms of an adjusted EBITDA bridge – I'll move through this from left to right. So, in 2015, as you remember, we had adjusted EBITDA of $474 million. The revenue growth that we saw along with the gross margin expansion led to a $55 million increase, from a gross margin perspective, in our adjusted EBITDA. Against that the OpEx growth reduced that by $23 million. Importantly, from a foreign exchange perspective, although we did see a constant currency drag on our revenue line, that was offset by foreign exchange benefits. Both on the gross margin line as well as the OpEx line, meaning from an EBITDA perspective, foreign exchange was relatively neutral for the year and that's because the principal foreign exchange impact was from sterling where we have a very strong natural hedge given our UK operations. Overall, that led to EBITDA for the year of $508 million and likewise we saw a similar increase in our adjusted EBIT, which went from $437 million in 2015 to $472 million last year.

We had a cash conversion rate last year of 80%. As expected, a bit lower than we've had traditionally at roughly 85% because of higher CapEx and higher working capital associated with the Margin Improvement Program.

We ended the year with a net debt of 3 times, well down from the 6.9 times pre-IPO and also further reduced from the time of the IPO itself. And as you remember, at the IPO, not only did we reduced the overall level of debt, we also refinanced this on favorable terms. So, when you look at our new debt structure, at current interest rates, it has a blended annual coupon of around 3%. So, altogether, again, a good solid performance across all financial metrics in 2016 and we'd expect to continue to build on that momentum going into 2017, which brings me to the guidance.

So, I'll go through this slowly to make sure we capture it all correctly. Firstly, from a revenue growth perspective, we're expecting group constant currency organic revenue growth, for that rates will be greater than the 2016 rates. And just as a reminder, that's after reflecting the negative impact of about 1% flowing from the CCC portfolio rationalization within the MIP program, which is about a $15 million full-year impact. It also excludes the benefit from the EuroTec acquisition that we closed on the 1st of January this year. And just to give you a reference point for that, last year that business had revenues of €10 million. It's fair to say that we expect that revenue growth more heavily weighted towards the second half of the year. There's a number of key reasons for that.

Firstly, the CCC portfolio rationalization is largely weighted towards the first half of the year, so that will, in particular, impact that franchise during the first half. Secondly, as I'm sure you can appreciate it, the benefit of the product launches will flow through more in the second half of the year than the first half. And then there are a number of timing impacts on both the Ostomy Care franchise and the Infusion Device franchise.

In Ostomy, the products – price adjustments that we expect to see through the course of the year will more impact the first half than the second half principally related to the timing of the GPO renewals that we had in the U.S. last year.

On Infusion Devices, we had anticipated a potential channel destock from the main customer in that franchise during the second half of 2016. We didn't see that as you know, but we can't rule out the possibility that we may see it in the first half of 2017. So, we would continue to express some caution on that potential as well.

In terms of foreign exchange, that constant currency growth rate will be impacted by foreign exchange movements of course. Looking at current spot rates, we would expect to see a negative headwind of about 2% on a reported revenue growth from that effect. Given the progress of our margin improvement, we now expect to see delivery of about half of the overall program benefits through the course of this year.

On top of the expenditures, we've continue to expect to see CapEx to be in the historic range of 2% to 3% in sales along with about $50 million of incremental CapEx associated with the Margin Improvement Program, as

we've previously flagged. Likewise, as we'd previously mentioned, we do expect to have about $15 million of incremental OpEx this year from becoming a public company, which we wouldn't have had before.

In terms of our tax rates, we'd expect an adjusted tax rate for the year to be broadly in the line with the 2016 pro forma adjusted rates that I mentioned earlier. Finally, we continue to target a payout ratio for dividends of 35% to 45% over the medium term. For this year, we're continuing to target a payout ratio of 35% with our first dividend being an interim dividend payable in the H1 results towards the end of the year. We've had good performance across all the financial metrics throughout 2016 and we'd expect to see continued progress through the course of 2017.

Paul Moraviec

So, I'd like to sum up with a quick reminder of where we're going. We're aiming to be the innovative global leader in medical devices for chronic care. We're going to achieve this through continuing to launch new and differentiated products into our existing markets, entering new, large market segments and by building our direct-to-consumer platform.

Our chronic care space sits at the sweet spot of global healthcare trends. Our markets are large, growing and structurally strong. We enjoy high degrees of recurring revenues and our R&D process is highly efficient as we don't require high-cost, high-risk trials. As we've shown you today, we've got a differentiated product portfolio and strong market positions in all four areas in which we operate, with a good balance by franchise and also by geography. Overall, we've got a great business mix, some fantastic products and an attractive addressable market and you can see that in the results that we've delivered today. 2016 was a good year with significant progress across all of our franchises. Looking forward, we see lots of opportunity with a strong pipeline of new product and still plenty to come from our Margin Improvement Program so we're confident about the year ahead.

Q&A

Question: Your guidance seems quite conservative with 90 basis points of benefit from a structuring program this year and you're guiding for 60 basis points next year. Presumably you could do more with annualizing the existing benefits from the second half. Are you deliberately guiding conservatively? Do you agree that there is upside there as you continue to make progress with the restructuring?

On the revenue guidance, you change the language daily. Previously your mid to single digit revenue growth and now you're saying more than 4% -- are you trying to signal upside risk to that previous guidance that you gave?

Nigel Clerkin: On the bp guidance, the way we would think about it is, the Margin Improvement Program is a five-year program. We're very happy with the progress that we saw during 2016, delivering ahead of schedule. At this point, we feel confident now that we do expect to see roughly half of the program benefit delivered through the course of this year. Having said that, our job is to continue to drive that program and to try and achieve the benefits as fast as we can. But for now our guidance is what we've set out, and we'd expect to see achievement of about half the program benefit through the course of this year. But again, it is something that Mike and Tim are very focused on and we did deliver very well during 2016.

On the revenue guidance, we would view the guidance as being consistent with what we've said at the point of the IPO. Again we're saying we expect to see growth – the growth rate this year to be greater than the growth rate last year. So, that's what we'd say in guidance at this point. Obviously, we will continue to revisit guidance through the course of the year, but, again, we'd say it is consistent.

Question: So that your message that you're going to deliver half the benefit this year, is that by the end of 2017 you'll be annualizing at 150 basis points?

Nigel Clerkin: No, we would expect to see that the 2017 benefit would in effect have delivered the half of the

overall program benefits in 2017 for the year. So, not an end of year run rates but an actual delivery during the year, for the year.

Question: On the revenue guidance, you have some risks with Infusion Device destock in the first half. You've noticed the portfolio rationalization. Can you help us understand what drives the acceleration in the growth in 2017 versus 2016, especially given that you have these headwinds that you have to contend with?

On the tax rate, and I know it's very early and there's a lot of tax reform in Switzerland – debate in Switzerland and in the U.S. Can you give us a sense of what impact if any you would expect on the guidance that you had issued previously and then maybe a comment on broader adjustment?

Paul Moraviec: So, in terms of the overall guidance, when I look at each of the franchises, I think we're in a very good position. We have the headwinds that we talked about at the front half there. But, fundamentally, the Wound business continues to deliver very strongly. We're going to continue to accelerate our foam business. We have the prevention and protection categories, which we're just expanding out now. We have the Ag+ and silver, which we'll continue to accelerate, surgical new indications and, of course, we have NPWT. That revenue will start to be back-end loaded as we go through the regulatory processes. So, we fully expect Wound to be in very good shape in 2017. We'll also see those new products coming through the second half of the year.

In Ostomy, we're making some really strong progress here. We're gaining new hospitals, both in Europe and in the U.S., through our strategies there. We're acquiring extremely high numbers of patients. We're off to a very good start already this year. We're launching Flex Convex again, which is a very important new product in the Ostomy business. We'll see a lot of those sales coming through and building up in the second half. The accessories business continues to grow very nicely. We're starting to leverage the GPOs in the Ostomy business with the winning of the IDN accounts.

All these things allow us to accelerate as we go through the year, and the first part of that year is going to be impacted by the timing of the pricing. From a CCC point of view, we have GentleCath Glide, which will start to build traction through the year. In ID, we'll be launching Ulysses.

We feel very confident in the traction we've had in all those four franchises. A little bit weak at the start, but I think that we're very confident for the second half.

Nigel Clerkin: On the tax, I would say nothing has fundamentally changed in terms of our perspective on our tax cycle. It's entirely consistent with where we were at the point of the IPO. I did mention we have a presentational change in our effective tax rates calculation, which added 2% to the way we might've framed that at the time of the IPO. But aside from the presentational methodology change the underlying fundamentals are unchanged.

On the two specific things you mentioned in Switzerland, our medium-term guidance was based on the assumption of Swiss tax reform. In theory, if Swiss tax reform didn't happen, that might potentially provide a slight upside for us. Our expectation there was that, in the fullness of time, there will be some formulation of tax reform implemented in Switzerland, especially given the EU pressure. So, we wouldn't change our medium-term view in terms of what will ultimately happen even if there's some confusion in the short-term.

On the U.S., I think that's obviously a changing landscape. But in fairness, like all the other companies, we need to see the detail on the specifics of what the new administration implements. There are obviously some moving pieces some of which could be negative for us and some of which could be positive for us. Our border adjustment tax would potentially be negative for us depending on the overall impact to that and what currency markets et cetera would do as well. On the other hand, if headline rates are reduced, that clearly would be a positive for every company with major U.S. operations and would be a really good medium-term benefit. There's also talk about interest rate deductions and whether you get deductibility for that, and that clearly for us could be a negative. For us, we need to see the overall blend of exactly what happens, to figure out exactly what the impact is. So, it's a little early for us to speculate, but those have been the moving pieces. We would obviously react to and update people on when we have clarity. So today everything continues to be very consistent in terms of our tax perspective.

Question: Can I just quickly ask the first-half versus second-half phasing. I know you don't want to guide on the growth rate for the full year, but is it 200-basis-point, 300-basis-point differential that you'd expect between the first half and the second-half growth rate?

Nigel Clerkin: I don't want to give specifics on that, but I think if you think about the drivers, so the CCC benefit – or the CCC impact, that's a $15 million full-year impact in terms of top-line as we mentioned, and again most of that we would expect to see in the first half. So, I think you can plug that into your models and see where that gets you.

The new product launches -- I think you should just look at your own assumptions in terms of phasing and find out how that would work from H1 to H2. Ostomy, the pricing adjustments there, that's possibly 1% to 2% drag in the growth rate of that franchise over the first half of the year relative to the second half. Infusion Devices would obviously depend on the specific nature of what amount of major stock movement that customer does, so it's difficult to predict.

Question: On Ostomy, in the IPO process you gave us a very nice chart looking at name capture rates as a key driver for improving the performance. Can you give us an update on that chart, on the trend for capturing new names in the United States? Do you expect that division to go close to group growth in 2017 or do you expect it to grow below the 4%?

Question number two is on inventory stocking and destocking. Last year and in previous years, you had wild swings between quarters. Do you expect or can you guide us on potential inventory destocking swings with distributors that you have?

If you use current spot rates, what do you think will be the foreign exchange margin benefit or headwind in 2017?

Paul Moraviec: On Ostomy, the MPC position is largely the same as we described it before – a complete stabilization of that position now for many years. In many markets, we're seeing that picking up quite nicely. I think the most important thing about our the Ostomy business is the leading indicators that drive it in terms of the number of new hospitals we're able to win, picking up IDNs as a result of the GPOs. And we've got good evidence and certainly the leading indicators to look at. I'm feeling very confident about that. But also the number of new patients that we bring into our me+ program, which enables us to communicate directly with those patients, make sure that they have the right products to retain those patients, which we were losing in the past. So, those two fundamentals I think are really important. Then we have the Flex Convex launch as well, which I think is going to be a key driver of new patient capture.

As you know, the MPC data is not very reliable data, so it's not something that we're able to use that extensively as an industry. The other indicators I think are even more important in terms of our near-term performance. In terms of market growth rate, we won't get to market growth rate in 2017, but I do expect us to make progress on this year. We will see steady progress each year in that Ostomy business. Everything that I see, in terms of the performance, country-by-country, gives me confidence of that we will deliver that.

Nigel Clerkin: Your other two questions on the inventory movement, for H2 as a whole we really didn't see much of a major movement of note. We have the breakouts of revenues for Q3 versus Q4 by franchise, so you have that detail. The one that would stick out from a channel movement perspective would have been Infusion Devices, where we did see a destocking in the third quarter from the principal customer there. Our growth was negative for Infusion Devices in the third quarter as a consequence of that. Then they reversed that destock in the fourth quarter and ended up with pretty much the same inventory levels that they had been at.

In foreign exchange rates, we saw a benefit of 40 basis points on the gross margin line. When you look at the EBIT margin, it expanded by 150 basis points, which was approximately half between currency and performance, so about 70 basis points are still coming from foreign exchange. 2016 was largely driven by sterling. When you look at 2017 and current spot rates, sterling has continued to decline because of prices et cetera, but we've had some euro decline as well, which is going to lead to overall net. There’s still a margin benefit from foreign exchange, but probably at about half the levels that we saw in 2016, when you blend in the euro impact.

Question: In your margin guidance, do you fully include that current benefit of foreign exchange?

Nigel Clerkin: No. For the Margin Improvement Program benefit, the expectation of getting to half of the program benefit through this year is a true performance benefit, it doesn't include foreign exchange.

Question: On the inventory destocking, I wasn't normally referring to 2016. It was more about general destocking issues that we've seen with Coloplast and Smith & Nephew, I'm just curious whether you feel that there is going to be some wild swings in 2017?

Nigel Clerkin: I think the one we would flag is the ID principal customer. Beyond that, there's not a lot we would see for our business in terms of channel volatility this year.

Question: For the margin improvement plan, you set out the target of 300 bps at the IPO, but you are delivering ahead of schedule. When would you feel confident in upgrading that total guidance by what you could deliver?

Second question is just on the Ostomy division, obviously Q4 was actually the weakest quarter of the year. Is there any insight into why that quarter was the weakest? And is there any exit run rate we should be consigned to or looking at in any growth detail? You've made one opportunistic acquisition in Ostomy. Would you look to do anymore in 2017 and what areas would you look to strengthen?

Nigel Clerkin: Our guidance remains that we'd expect to see at least 300 basis points of benefit from the Margin Improvement Program, which is a five-year program through 2020. Given how we've delivered through 2016, we'd now expect to have delivered half of that program through the first two years of the five years. That's our guidance. Of course, it is our job and we will continue to work with Mike and his team to drive faster implementation and hopefully, it is a 300-basis-point-plus program, but that remains our guidance in MIP at this point.

Paul Moraviec: On the Q4 in Ostomy, a slight headwind there and that was due to the timing on the GPOs as Nigel mentioned before. That's from the first impact that you'll see that. In terms of the acquisition strategy, we are thinking very consistently with what we said at the IPO, and that is we will actively look for bolt-on acquisitions that fit our strategies for each of the franchises. So, we have a very disciplined process to look at those, and we will continue to look for those types of opportunities, forward integration or technology plays. I think the acquisition of EuroTec is a perfect example of the types of deals that we like, and we'll continue to pursue those types of deals.

Question: Just a couple of questions. On the continence care global rollout, I just wondered if your scope is about the size of the opportunity you see there? And then on Negative Pressure, which market have you launched in Europe so far and are considering as a potential target for entering in the U.S?

Paul Moraviec: I think from a global point of view, probably the biggest opportunity that we're not active in at the moment is the European catheter opportunity, and that's around $800 million opportunity. That's an area where we've always said that we don't expect to be active in that until right at the end of the year, so there won't be an impact in 2017 and we see a rollout through 2018.

Question: On NPWT, which markets are you in in Europe and when you expect to enter the U.S.?

Paul Moraviec: I mean, just to give you the Avelle picture, we went into clinical work with Avelle right at the summer, and we went out with a select number of countries and accounts to make sure that the clinical validation work was done, and we made a few tweaks in the product positioning, but the response to that was excellent. And we've got into full commercial launch in the UK, Nordic and Netherlands right at the end of 2016. And then we're now in full commercial launch as we go through this year with January with Germany, France, and Spain and Italy. The response to the product has been excellent. People have given us very direct feedback with patients and doctors about the benefits of the AQUACEL interface, which I think is the key differentiator of that product. We're able to see evidence of reduced skin maceration and less pain for the patients. But also, we have an economic benefit and our product lasts longer than the competitor products, there's also an economic benefit there as well.

This is a product very similar to foam and the experience we have there. It does take a bit of time to pick up

momentum in a product launch like that simply because you need to go through the reimbursement and the regulatory processes and in terms of hospital listings, drug tariff listings and all those types of things, but we're very advanced on those things now. And we expect that product to pickup already. In January and February, we're starting to see a really nice pickup. So, I expect that to continue through the year. And then, we expect to get a 510(k) in the U.S., probably at the end of the second quarter will be my expectation. And obviously, that's a very large market, so that would give us a nice impact in the second half.

Question: In your press release, you spoke about strong growth in Australia in Ostomy Care. Could you elaborate on that, whether that's more market or related or company specific would be my first question.

Paul Moraviec: We've put a lot of focus on that marketplace with additional resources where we also have new management in that marketplace. And we've now seen a nice pickup, particularly in the MPC area and also the gaining of new hospitals et cetera, so that's basically the driver there.

Question: That's more company specific, you think?

Paul Moraviec: Yes.

Question: And the second question is on the pricing impact from these renewed GPO contracts. I mean, you mentioned a 1% to 2% impact in the first half loaded on the franchise. So, if I assume a third is the U.S., does this basically translate into a 5% price cut? Would that be a reasonable reasoning?

Nigel Clerkin: I think overall our expectations on price across the business continue to be around 1% a year and Ostomy will be similar to that. Really more flagging given the timing of the GPO renewals, that those have an impact on the H1 versus H2 growth profile, but it doesn't change our overall perspective on the price environment in the franchise.

Question: The last question is since I'm sure Nigel, you have prepared this text presentation or speech, maybe could you give that to us?

Nigel Clerkin: Sure. Absolutely. So, at the time of the IPO, we had gone through one of the large adjustments that we made routinely in terms of calculating our adjusted results is acquisition amortization expense that relates to the original transaction for Nordic and Avista. At the time of the IPO, what we had done was we had set to calculate our ETR, take our tax charge in the P&L and express it as a percentage of our profit before tax calculated after adding back the acquisition amortization expense.

What we've done now – so had we applied that methodology, we would have had an ETR pro-forma for 2016 of 12%, okay? But frankly, based on the feedback from all of yourselves we felt it was more consistent to adjust the tax line for the tax effect of that add-back as well as we are doing with all of the other adjustments that we make in arriving at adjusted profit before tax. So, for consistency, we've adjusted the tax charge for the tax effect of the adjustment in all cases. And the effect of that is to increase the adjusted effective tax rate by 2% as I mentioned to 14%. So, I hope – does that help? Did that make it clear?

Question: Yes. Thank you.

Question: On the me+ recruitment of 76,000, you said that you beat expectations quite significantly, I was just wondering what those expectations were? And you mentioned how that impacted on new patient capture, but I was wondering if you at all monitor post acute switch rates and have you seen any effects of this – of the 76,000 enrollees having any effect on the post-acute switch?

Paul Moraviec: Yes. So, it was better than we expected. And I don't really want to get into sort of what we put in the forecast, et cetera, but I would say it was a pretty significant – significantly better than we expected. And I think the way to think about me+ is that, of those 67,000 names, so more than half of those are actually patients that are using our competitive system interestingly enough and half of those were brand new patients as well, more than half. So, as you can imagine, that puts us in a very, very different place than we were maybe a year or two ago in the sense of not having access to those patients. So, that's a pretty significant chunk of the new patients coming into the marketplace that we have access to there. And if those patients are having problems, it gives us the opportunity to help them with the right products. So, hopefully, that helps you get a sense of the importance of those numbers to us.

Question: Okay. And then the second question really covered where you highlighted pricing risk and at the time of IPO you suggested a 1% pricing pressure. By what Nigel was saying that hasn't changed and it's mainly a function of new products coming in to the market rather than any payer pressure?

Paul Moraviec: Well, I'd say it's more payer pressure that's actually driving that. And, yes, we're expecting that type of range as we go into 2017.

Question: So, two questions for me, please. First of all, on the Ostomy timing, sorry to insist on this, I know it's the third time. But can you just explain why there is timing because of the GPO contracts, because I didn't fully understand? And how – I mean, what parts of the volume does that affect? It seems to affect a lot of the volume you sell, so that it has a 1% to 2% impact on the first half, whereas I thought the GPOs address hospitals, which is actually a small part of the overall volume in the U.S. And then the second question is, if you could explain to us what you think are the reasons behind potential destocking in Infusion Devices in your client side? And in terms of visibility on the timing of this, do you feel you have any or you really don't know and can't say?

Nigel Clerkin: On the Ostomy timing, so the GPO renewals that the biggest impact of that started from the September 1 last year, so that's why it impacts more H1 2017 versus 2016 than H2 2017 versus 2016, okay? And to your point about what proportion of the business is that, et cetera, I think really what we're flagging is that's one factor that dives that weighting of price impacts more towards the first half than the second half. It's not the only one, okay?

And then on ID destocking, we obviously speak to our principal customers all the time and, again, the guidance that we gave at the IPO reflected the fact that they had actually reduced inventory in the third quarter and had told us they expected to stay at that level all the way through the end of the year. Ultimately, they clearly didn't do that and felt they needed more inventory. So, again, we – while we do have constant dialog with that as well as our other key customers, there are only internal working capital management processes or something beyond our control. I think, obviously, their desire is to be like every company but they also have to make sure, they can serve their customers. So, it's difficult for us to have any more insight rather than what we communicated to you. We stay in very close dialog with them. But often times, they actually don't decide their final inventories until quite later in the month or in the quarter.

Question: So, just a follow-up on this. I'm sure you've been asked this before, but you really don't feel like this destocking has anything to do with a competitor product.

Paul Moraviec: No, nothing at all.

Question: I had two follow-up questions or one follow-up and one new one. When it comes to new one, I want to understand the adjusted net income number that you've got on the back of your release. You exclude, I think it is in row E, in financing costs, a whole number of items including foreign exchange movements. So, I'm trying to understand why that is being adjusted for because that's a natural part of doing business, foreign exchange movements? And maybe you can also quantify what the amount is because obviously bundled in a number of I think it was $27 million or $29 million?

And question number two is I want to get back to the U.S. tax reform and I can't see – and please correct me, I can't see any way, shape or form how U.S. tax reform could be positive for you. I know the U.S. market is your biggest market. You have to import virtually everything after you're closing down the U.S. facility. You use transfer pricing out of Switzerland so the actual profit recorded in the U.S. is probably small. You're deducting from that the amortization of goodwill. You deduct from that interest expense. So, if the corporate tax rate goes down, it's in a very, very small profit, but you have to import virtually everything from outside the United States. I don't see how this can be positive for you, yet you mentioned before that it could be positive.

Question: Can you explain to me where I'm wrong please and where the upside could come from?

Nigel Clerkin: On the adjusted net income question, we have excluded foreign exchange gains and losses in the numbers that you see here. That number in the table that you're referring to is all foreign exchange gains and losses. So, there isn't anything else in that number. The reason mainly that's been excluded is that it's largely been driven by IPO-related activities during 2016. So, frankly, I think it is something we will keep under

review whether we will continue to make that adjustment into the future, okay? And I think that's a fair comment in terms of what other companies are doing and so on. So, it is something we would reflect on. The reason we felt we should for last year was because it was so heavily impacted by IPO restructuring activity in essence, okay?

In terms of the U.S. tax reform, you're right, there are moving pieces and undoubtedly a border tax would be negative for us. Again, we'd obviously have to see what the overall impact would be when you look at exchange rate movements and what other companies are doing and so on, but, conceptually, it would be. Interest rate deductibility clearly is something we benefit from. So, that would be a negative as well.

To your point about the fact that we do have a good Swiss structure and therefore would the benefit from a rate reduction be muted? So, we obviously do have a global Swiss structure, but the U.S. is a large part of our group and obviously we would expect to see continued growth there into the future. So, over time, an increasing portion of profits would be exposed to the U.S. headline tax rate and particularly as our amortization deduction expense goes away in 2023 and beyond or 2024 and beyond.

So, in the shorter term, certainly, U.S. tax reform likely would be in negative to us depending on exactly what's done, depending on the phasing of implementation of various changes. Over the medium-to-longer term, if there is a significant reduction in the headline rate, that will be a benefit to us because there is a limit to how much of the U.S. profitability would get taxed outside of the U.S. ultimately, particularly as profitability there grows.

Paul Moraviec

I think it looks as if we're about there. No other questions. So, thank you, everybody, for being here this morning. 2016 is a very good year for us and we're very much looking forward to 2017 in our next meeting with all of you.

Thank you very much for coming.