



THIS ANNOUNCEMENT CONTAINS INSIDE INFORMATION FOR THE PURPOSES OF ARTICLE 7 OF THE MARKET ABUSE REGULATION (EU) 596/2014

FY2017 guidance and third quarter update

16 OCTOBER 2017 (LSE: CTEC)

ConvaTec Group Plc (“the Group”) is today providing an update on trading in the third quarter and revising guidance for full year expectations for organic revenue growth and delivery of the Margin Improvement Programme (“MIP Programme”).

In the third quarter, Group revenue was \$445.5 million, reflecting 6.8% reported growth on the same period in 2016, 5.1%¹ at constant exchange rates and 3.3%² organic growth. The Group also continued to expand its product portfolio across products and geographies. However, performance during the third quarter was severely impacted by supply issues in both Advanced Wound and Ostomy Care, and a lower than anticipated revenue contribution from new products.

Consequently, the Group now anticipate full year organic revenue growth will be between 1% and 2%, with the outcome in this range being dependent on the degree of success in resolving remaining supply issues, fulfilment of backorders and recovery of orders in both Advanced Wound and Ostomy Care in the fourth quarter.

The supply issues principally relate to the movement of Advanced Wound Care manufacturing lines from Greensboro in the U.S. to Haina in the Dominican Republic, including delays in obtaining regulatory certification, as well as the movement of the final two Ostomy manufacturing lines. The costs associated with these supply issues are expected to result in the loss of the 40 bps of margin benefit achieved as a result of the MIP Programme in the first half of this year, and the majority of the 90 bps delivered in 2016.

As expected and reflected in our previous guidance, Advanced Wound Care was impacted in the third quarter by the ongoing supply disruptions to manufacturing in Haina, which also affected the first half. However, less progress than anticipated was made in reducing backorders, with a consequent loss of some orders. The Group expects the Advanced Wound Care supply issues in Haina to be resolved by the end of the fourth quarter.

Ostomy Care also experienced supply constraints related to the movement of the final two manufacturing lines to Haina, leading to a build-up of backorders and some loss of orders in the quarter. Progress is being made in reducing backorders on Convex products, which we expect will be resolved by the end of the fourth quarter. Lines producing our Mouldable range of products continue to run below full volume due to capacity constraints, with resolution anticipated during the first half of 2018.

Once the supply issues in Haina are resolved the Group expects to be able to achieve progress on margin improvement.

Despite the decline in revenue expectations, the Group is working towards adjusted operating costs of around 35% of full year revenue, compared to 37% in the first half.

¹ Growth at constant exchange rates includes \$3.0 million revenue from EuroTec in Ostomy Care and \$4.5 million in Continence & Critical Care from Woodbury Holdings.

² Organic growth presents year on year growth at constant exchange rates, excluding M&A activities.

Q3 Key points:

- Group revenue of \$445.5 million grew 5.1%¹ at constant exchange rates or 3.3%² organically, with growing momentum in Continence & Critical Care and an improved performance in Infusion Devices, offset by the supply constraints noted above;
- Advanced Wound Care revenue grew 1.4%² on an organic basis, reflecting the supply disruptions and loss of some orders, along with the ongoing impact of changes to reimbursement rates in France, which reduced growth by a combined c. 4.5 percentage points in the quarter;
- Ostomy Care revenue grew 0.5%¹ at constant exchange rates or declined 1.8%² organically, reflecting supply constraints and associated loss of some orders, which combined reduced growth by c. 3.5 percentage points in the quarter;
- Continence & Critical Care revenue grew 9.8%¹ at constant exchange rates or 4.5%² organically, due to a strong 180 Medical performance. MIP initiatives reduced growth by c. 3 percentage points in the quarter;
- Infusion Devices revenue grew 17.3%² organically due to an anticipated increase in customer orders and the positive affect of a customer product recall which contributed c. 3 percentage points to growth.

Revenue by franchise

	Q3 2017 Reported \$'m	Q3 2016 Reported \$'m	Q3 reported growth %	Q3 organic growth ² %
Advanced Wound Care	147.9	142.9	3.5%	1.4%
Ostomy Care	132.1	129.3	2.2%	(1.8)%
Continence & Critical Care	96.2	86.8	10.8%	4.5%
Infusion devices	69.3	58.4	18.9%	17.3%
Total revenue	445.5	417.4	6.8%	3.3%

Paul Moraviec, Group Chief Executive Officer, commented:

"In the third quarter we delivered an acceleration in organic revenue growth to 3.3%, and continued to expand our product portfolio across products and geographies.

"However, I am disappointed that our performance in the third quarter was severely affected by supply issues in both Advanced Wound and Ostomy Care and a lower than anticipated revenue contribution from new products, leading to a reduction in our full year organic revenue growth expectations. The costs associated with these issues have also impacted delivery of our MIP Programme.

"Despite these setbacks, the business remains well positioned in large, structurally growing chronic care markets, with strong brands, differentiated products and a strong and innovative R&D pipeline. We understand the operational issues we need to address, and are determined to drive performance and to deliver margin improvement in the future. However, given what we have experienced in the third quarter, we are reviewing the financial implications for growth and margins in FY2018 and will provide further guidance at our preliminary results in early 2018."

¹ Growth at constant exchange rates includes \$3.0 million revenue from EuroTec in Ostomy Care and \$4.5 million in Continence & Critical Care from Woodbury Holdings.

² Organic growth presents year on year growth at constant exchange rates, excluding M&A activities.

Group revenue

Group total revenue in the three months ended 30 September increased 5.1%¹ versus the prior year at constant exchange rates, or 3.3%² on an organic basis.

On a reported basis, total Group revenue in Q3 of \$445.5 million was 6.8% higher year on year, reflecting favourable foreign exchange movements (strengthening of the Euro against the U.S. dollar) and a \$7.5 million contribution from EuroTec and Woodbury Holdings.

Reported revenue in the nine months to 30 September of \$1,276.8 million increased 2.5% compared to the prior year.

Advanced Wound Care

Revenue in the three months to 30 September increased 1.4%² versus the prior year as the franchise continued to be affected, as anticipated, by supply constraints on our Surgical Cover Dressing and DuoDerm products which arose in the first half from the transfer of manufacturing lines to our Haina plant. We made good progress reducing backorders in the U.S. during the quarter and, following receipt of certification from the British Standards Institute (“BSI”) on 8 September, we are in the process of fulfilling EMEA backorders, which continued to build during the quarter. However, we made less progress than anticipated in fulfilling EMEA backorders due to delays with logistics, including hurricanes disrupting shipping lanes in the Caribbean. We expect to fulfil the majority of the remaining backorders by the year end.

As a result, there was a continuing impact from supply disruptions during the quarter, including the loss of some orders, which reduced organic revenue growth by c. 3.5 percentage points.

Changes to reimbursement rates in France at the start of the year continued to reduce growth by c. 1 percentage point.

Reported revenue of \$147.9 million increased 3.5% compared to the third quarter of 2016. Reported revenue in the nine months to 30 September was \$420.0 million, 2.0% ahead of the prior year.

Ostomy Care

Revenue in the three months to 30 September grew 0.5%¹ year on year at constant exchange rates or declined 1.8%² on an organic basis, reflecting a strong underlying performance in the U.S., offset by supply constraints which arose due to the transfer of the final manufacturing lines from Greensboro in the U.S. to our Haina facility. We have experienced delays in making those lines fully operational, with production of Convex and Mouldable products running below full capacity. This has led to a build-up of backorders, which we are currently addressing. The backorder level for Convex products is reducing and we expect the situation to be resolved by the year end. For Mouldable products, we anticipate optimisation of production lines will continue throughout Q4 and into the first half of 2018, with a knock on effect on backorders of Mouldable products.

These supply constraints, and associated loss of orders, reduced growth in the third quarter by c. 3.5 percentage points.

The renewal of Group Purchasing Organisation (“GPO”) contracts in the U.S. reduced revenue growth by c. 0.5 percentage points in the third quarter. Given the timing of contract renewal in 2016, there will be no further impact in the fourth quarter.

¹Growth at constant exchange rates includes \$3.0 million revenue from EuroTec in Ostomy and \$4.5 million in Continence & Critical Care from Woodbury Holdings.

² Organic growth presents year on year growth at constant exchange rates, excluding M&A activities.

Reported revenue in the three months to 30 September of \$132.1 million grew 2.2% against the same period last year and included a \$3.0 million contribution from EuroTec. Reported revenue for the nine months ended 30 September of \$386.8 million grew 2.0% year on year.

Continence & Critical Care

Revenue in the three months to 30 September grew 9.8%¹ year on year at constant exchange rates or 4.5%² on an organic basis. A strong performance from 180 Medical and good U.S. sales of GentleCath™ continued to drive growth. Planned product rationalisation reduced organic growth by c. 3 percentage points.

During the quarter we announced the launch of GentleCath™ Glide in Europe, along with the GentleCath™ me+™ programme for Continence Care, our first entry into the European catheter market. We expect this to begin to contribute to revenue in early 2018, with growth accelerating later in 2018 following the anticipated launch of our “Next Gen” catheter product.

The acquisition of Woodbury Holdings completed on 1 September 2017.

On a reported basis revenue in the three months to 30 September of \$96.2 million grew 10.8% year on year and included a \$4.5 million contribution from Woodbury Holdings. Reported revenue in the nine months ended 30 September of \$271.3 million grew 2.2% year on year.

Infusion Devices

Revenue in the three months to 30 September grew strongly at 17.3%² year on year reflecting an anticipated increase in customer orders related to new product launches and the positive impact of a customer voluntary product recall which resulted in additional product drawdown, accounting for c.3 percentage points of growth.

On a reported basis revenue in the three months to 30 September of \$69.3 million grew 18.9% year on year. Reported revenue for the nine months ended 30 September of \$198.7 million increased 4.7% year on year.

MIP Programme

The Group had targeted c. 150 bps of gross margin benefit to be delivered over FY2016 and FY2017.

The Group now expects for the full year that all of the gross margin improvement of 40 bps achieved in the first six months of 2017 will be eroded, along with the majority of the 90 bps benefit delivered last year.

The main driver of this change is the challenge we have encountered implementing the transfer of the final manufacturing lines from Greensboro to Haina. This has led to operational disruption and consequent cost inefficiencies, supply constraints and mix effects.

Once the supply issues in Haina are resolved the Group expects to be able to achieve progress on margin improvement. We are reviewing the financial implications for growth and margins in FY2018 and will provide further guidance at our preliminary results in early 2018.

¹ Growth at constant exchange rates includes \$3.0 million revenue from EuroTec in Ostomy and \$4.5 million in Continence & Critical Care from Woodbury Holdings.

² Organic growth presents year on year growth at constant exchange rates, excluding M&A activities.

People

During the quarter the Group was pleased to announce the appointment of Donal Balfe as Executive Vice President Global Operations and as a member of the Executive Committee, with effect from 1 October 2017, filling the position left vacant as a result of the sudden death of his predecessor Mike Sgrignari. Donal now has responsibility for the continued implementation of the MIP Programme. Donal has 29 years of experience in Medical Device manufacturing, most recently as Vice President of Operations for Medtronic PLC. During his career Donal has led programmes to consolidate manufacturing operations and implement Six Sigma and Lean manufacturing initiatives, supervised continuous change actions to improve service and business performance, reduce costs, enhance quality and increase margins, within a regulated environment.

On 11th August two new Non-Executive Directors were appointed to the Board with immediate effect: Dr Regina Benjamin and Mrs Margaret Ewing. Dr Benjamin immediately joined the Corporate Responsibility Committee. Mrs Ewing immediately joined the Audit and Risk Committee and Corporate Responsibility Committee.

Dr Raj Shah left the Board on 8th September. Dr Ros Rivaz has joined the Nominations and Remuneration Committees in place of Dr Shah.

There will be an audiocast for UK analysts & investors today at 08:00 BST which can be accessed via the ConvaTec website www.convatecgroup.com/investors/reports/ A recording will be available on the site shortly afterwards.

There is also a conference call facility:

UK (Local): 020 3059 8125

All other locations: + 44 20 3059 8125

Password: ConvaTec

The presentation for the call can be downloaded at:

www.convatecgroup.com/investors/reports/

A second call for US analysts and investors will be held at 14.00 BST / 09.00 DST:

United States (Local): 1 7249 289 460

Password: ConvaTec

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Revenue by Geography

	Q3 2017 Reported \$'m	Q3 2016 Reported \$'m	Q3 reported growth %	Q3 organic growth ¹ %
Americas	225.6	203.9	10.7	8.0
EMEA	185.3	179.2	3.4	(2.0)
APAC	34.6	34.3	1.2	2.5
Total revenue	445.5	417.4	6.8%	3.3%

Revenues in Americas in the three months to 30 September grew 8.0%¹ on an organic basis, with a good performance from 180 Medical. Reported growth of 10.7% includes \$4.5 million revenue from Woodbury Holdings.

Revenue in EMEA fell 2.0%¹ with supply constraints impacting Advanced Wound Care and Ostomy Care. Reported growth of 3.4% includes \$3.0 million revenue from EuroTec.

Revenue in Asia Pacific grew 2.5%¹ with growth driven by Advanced Wound Care.

Foreign exchange rates

	3m 2017 Average	3m 2016 Average
USD/GBP	1.309	1.313
USD/EUR	1.175	1.116

About ConvaTec

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

Forward Looking Statements

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

By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. These statements are necessarily based upon a number of estimates and assumptions that, while considered reasonable by the Company, are inherently subject to significant business, economic and competitive uncertainties and contingencies. As such, no assurance can be given that such future results, including guidance provided by the Group, will be achieved; actual events or results

¹ Organic growth presents year on year growth at constant exchange rates, excluding M&A activities.

may differ materially as a result of risks and uncertainties facing the Group. Such risks and uncertainties could cause actual results to vary materially from the future results indicated, expressed, or implied in such forward-looking statements. Forward-looking statements are not guarantees of future performance and the actual results of operations, financial condition and liquidity, and the development of the industry in which the Group operates, may differ materially from those made in or suggested by the forward-looking statements set out in this Presentation. Past performance of the Group cannot be relied on as a guide to future performance. Forward-looking statements speak only as at the date of this document and the Company and its directors, officers, employees, agents, affiliates and advisers expressly disclaim any obligations or undertaking to release any update of, or revisions to, any forward-looking statements in this document.