ConvaTec 2017 Interim Results

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Operational Highlights

Paul Moraviec

Chief Executive, ConvaTec

Preamble

Good morning everybody, and welcome to our half-year results presentation. In summary, in the first half of this year we have demonstrated further execution of our strategy; underlying revenue growth across all of our franchises; the continuing rollout and launch of new products; on-track execution of our MIP initiative; and established solid foundations to accelerate the revenue growth in the second half.

Departure of Nigel Clerkin

I am joined this morning by Nigel Clerkin, our CFO. You will have seen this morning's announcement on Nigel's departure. The Board has decided that the CFO position should be relocated to our head office in Reading, where I am located, and for family reasons Nigel was unable to make this move. We will be very sad to see him go, but we completely understand his decision. He will continue in his position until the end of October to ensure a smooth transition to his successor, and I would like to take this opportunity to sincerely thank Nigel for all of his achievements over the past three years, including of course the significant contribution that he made to our successful IPO last year.

Nigel leaves ConvaTec in a very strong position, and we are also very pleased to have been able to appoint a very strong candidate in Frank Schulkes, who is here today. We look forward to introducing you to Frank as he works alongside Nigel as part of the transition over the next three months.

I will cover the operational highlights for the period, and then Nigel will cover the financials in more depth, including an update on our Margin Improvement Programme, and then we will open up for questions.

H1 2017: continued underlying momentum

Revenue growth was 2.1% on a constant currency basis, or 1.5% organic. Solid underlying demand growth in our Advanced Wound Care business has been impacted by short-term fulfilment constraints, and I will come back to that later. We were particularly pleased with the ongoing results in our Ostomy Care franchise. Here, we have now stepped up a gear and accelerated the revenue growth. Continence and Critical Care showed good underlying momentum. Revenue growth here reflects the MIP product rationalisation initiatives, as expected. In Infusion Devices, we have continued to strengthen our relationship with Medtronic, and we have launched our innovative safety needle infusion set for non-insulin applications, branded Neria Guard. Some of you may recall, we previously referred to this product internally as Ulysses.

MIP is on track, delivering 40 basis points of benefit in the first half of 2017. I am very pleased to announce that we have appointed a new EVP of Operations following the unexpected and tragic passing of Mike Sgrignari. This individual will join us on 1st October.

Adjusted EBIT margin was 190 basis points lower in the half, and the key drivers for this were, firstly, the inclusion of Plc costs, which we discussed in previous updates; and, secondly, the phasing of Opex spend, which was weighted towards the first half to support

new product launches. We have seen strong momentum in a number of our growth initiatives, such as ostomy direct-to-consumer activities in the US, and the rapid progress with our new management team in China.

We have therefore decided to advance the phasing of a number of investments to accelerate these growth initiatives. In January this year, we acquired the Dutch company EuroTec, and in July we announced the acquisition of Woodbury Holdings in the US. Both acquisitions are consistent with our franchise strategies, and they will contribute positively to our Ostomy Care and CCC franchises respectively.

I am pleased to announce our first interim dividend, in line with a commitment we made at the time of the IPO. To that end, the Board has declared a dividend of 1.4 cents per share.

Finally, and importantly, overall we are on track, and our guidance for the full year is unchanged from what we said back in March. As I mentioned, the foundations are in place to accelerate growth in the second half.

H1 2017: Group key financial metrics

Nigel will go through the financial details shortly, but in terms of the headlines on slide 3, revenue growth was 2.1% at constant exchange rate for the Group. As we said in March, we continue to expect revenue growth to be H2 weighted; I will run through the drivers of that in just a moment. Group adjusted gross margin was up 150 basis points from 2016, of which 40 basis points was delivered by the MIP programme. Adjusted EBITDA was down 4.3% on a reported basis, for the reasons I have just mentioned, and as a result adjusted EBIT margin fell by 190 basis points.

Franchise summary

Let me now move to the franchise numbers. In Advanced Wound Care, we delivered 3.4% growth on an organic basis in the first half. Our major AQUACEL growth platforms of foam, silver and surgical performed well from a demand perspective, but overall performance was impacted by a number of short-term fulfilment constraints, as well as a reimbursement cut in France.

In Ostomy, execution of our strategy is delivering increased momentum, with 2.4% organic growth in the first half, including 3.6% in Q2. We are absolutely delighted with that performance. As you know, this also includes about one percentage point of headwind from the GPO contract renewals.

We are still seeing good underlying growth in CCC, in line with expectations, although actual revenue fell 1.1% on an organic basis. That is due to our MIP initiative to rationalise our product portfolio. This reduced revenue by about $9 million in the first half, as expected.

Infusion Devices declined 0.7% in the first half, and here end-user demand remained strong, although our sales were impacted by the timing of a new product launch by our largest customer. This shifted some of the demand to the second half.

I would now like to cover each of the franchises in a bit more detail.

Advanced Wound Care

In Advanced Wound Care, our largest franchise, we continue to see strong demand for our AQUACEL product lines, driven by silver and surgical, and also by Foam Pro and Foam Lite.

We have continued the rollout of Foam Lite, including the US which launched in April. We are now in 28 markets around the world, with 15 new markets entered in the first half. Surgical cover dressing also continues to perform well. Strong clinical and economic evidence is the key to growth of this product. A recent study by the New York Presbyterian Hospital and Columbia Medical Center found a four-fold decrease in the incidence of post-operative joint infections with the use of AQUACEL AG surgical.

The global rollout of Avelle continues to build momentum. We are now making sales in 12 markets and we are starting to gain real traction, particularly in the UK, Italy, Nordics and Germany.

Clearly, the revenue number for Wound was disappointing, and there are two factors that affected our first-half performance. First, the French reimbursement rate decrease, which takes about one percentage point off the growth rate; and second, we had some short-term fulfilment constraints. That is because, while production lines have been successfully relocated as part of MIP, there have been some delays in certification and longer-than-anticipated time to ramp-up volumes, particularly in our Haina plant. Unfortunately, this has led to some delays in fulfilment, and back orders have built up, particularly in the US and EMEA. These temporary supply issues reduced growth by around 2%. We have already taken action – the Operations team have worked tirelessly to resolve the production issues – so we continue to expect stronger revenue growth in the second half of 2017.

The fundamentals of the advanced wound care market remain strong, and our focus for the second half is on continuing to drive growth in our AQUACEL Foam, silver, surgical and Avelle, but also on fulfilling the back orders, which may take a couple of months to fully address, so there will be a continuing effect into Q3.

In the US, the FDA last week asked us to carry out some additional testing on Avelle. We are getting that organised right now. We aim to submit our 510(k) at the end of September. Allowing for the FDA to review, we are planning conservatively that we will obtain approval in Q1 next year. This delay will not have a material impact on our H2 revenue growth.

Ostomy

Here, our strategy of strengthening hospital and nurse relationships, expanding our direct-to-consumer programmes and launching new products has delivered accelerated revenue growth. We delivered 3.6% organic growth in the second quarter, and that is against 1.1% in Q1. That is in spite of an impact of around one percentage point from the GPO contract renewals in the US. We are continuing to invest in building nurse relationships in hospitals and leveraging our US GPO position. We have strong momentum in our direct-to-consumer initiatives, and me+ enrolments continue to grow faster than last year. In particular, we are pleased to see web visits and web sample requests growing very strongly versus prior year.

Our new product launches are progressing well. We have launched Esteem Flex Convex in all major markets, with very positive feedback from nurses and patients, and we are now launching our Convex Accordion range. Finally, the integration of EuroTec is going well, and that business contributed $5.3 million revenue in the first half. We have started to leverage the EuroTec portfolio by rolling out their Varimate strips on a global basis.

In the second half, we will continue to focus on driving growth. We will leverage our GPO contracts in the US, further strengthen hospital and nurse relationships globally, accelerate our direct-to-consumer programmes and drive new product growth.

Continence & Critical Care

We saw solid underlying growth, driven by 180 Medical and GentleCath. We launched GentleCath Glide in the US market, which has had a very positive reaction, and we supported that with the expansion of the me+ platform for continence patients. During the first half, we also launched Flexi-Seal PROTECT in the US and Europe, and this further strengthens our leadership position in this segment.

I mentioned before the $9 million revenue impact in the first half from our MIP product rationalisation initiatives, and this effectively reduced growth in the first half by around five percentage points, so the underlying growth rate was around 4%. We expect the impact in the second half to be less, around $5 million.

Two weeks ago, we agreed to acquire Woodbury Holdings in the US. This acquisition contributes to our growth strategy in CCC, and builds on the success of the 180 Medical acquisition in 2012. We have created a new home distribution business for catheter and incontinence-related products in the US to better serve our patients. This unit consolidates our leadership position in the US, combining our existing 180 Medical group of companies together with the Woodbury group. On completion, this acquisition is immediately accretive to Group sales and EBITDA growth, and we have the opportunity to benefit from revenue and cost synergies.

In the second half, we will focus on continuing to innovate and expand our GentleCath portfolio and the me+ platform. We will leverage the reach of 180 Medical and our new home distribution business, and we will launch GentleCath into new markets.

Infusion Devices

During the period, we strengthened one of our key long-term partnerships. We increased our production capabilities to support the range of infusion sets and insulin pump therapy solutions offered by the diabetes group at Medtronic. We saw a return to revenue growth of 1.7% in Q2, and this followed the anticipated customer inventory reductions in the first quarter of 2017. However, the timing of the new product launch by Medtronic has shifted some demand from the second quarter to the second half.

In June, we launched our Neria Guard infusion set for non-diabetes conditions. We have already shipped our first orders. Our H2 focus is to continue strengthening our long-term partnerships with insulin pump manufacturers, to continue the development of innovative products for both insulin and other drug delivery, and we will launch Ulysses, our automatic safety needle infusion set for the diabetes market with our largest partner fully in October.

Continued focus on R&D and innovation

Finally, the basis of our success for future years revolves around our relentless focus on R&D and innovation. We successfully launched 11 new products and line extensions into the market in the first half, and you can see some of them on this slide. We will continue our momentum with a strong pipeline that we are running through all of our franchises.

With that, I will hand over to Nigel to run you through the financials, and then we will come back for Q&A.

Financial Overview

Nigel Clerkin

Chief Financial Officer, ConvaTec

Introduction

Thanks, Paul, and good morning, everybody. As Paul went through, although our profitability for the first half is lower, overall we are pleased with the continued momentum that we are seeing in the business, with good underlying progress across each of the franchises as well as continued execution of the Margin Improvement Programme. Against that, though, our H1 profit metrics were impacted by timing issues on both revenue and Opex, and I will go through both of those in more detail later on. However, again, given the underlying dynamics that we are seeing in the business, and the progress there, our full-year expectations are unchanged, and so we are reaffirming all of the guidance that we set out here back in March.

Financial highlights

As Paul went through, we had first-half constant currency revenue growth of 2.1%, of which organic growth was 1.5%. Our gross margin increased by 150 basis points, from 58.8% in the first half of last year to 60.3% in the first half of this year, of which about 40 basis points was from performance, driven by increased performance on the Margin Improvement Programme, and 110 basis points from foreign exchange benefits, mainly driven by the decline of sterling.

Our operating expenses did increase significantly during the half, to 37% of sales. In part, that does reflect planned investments in the business, as well as the public company costs that we mentioned before, as well as the fact that, as you know, we have always expected our revenue growth this year to be weighted towards the second half of the year. However, as Paul mentioned, it does also reflect our decision to actively phase more of our Opex this year into the first half of the year, to drive the growth initiatives that Paul went through and to support the product launches. So, that increase in Opex did drive our EBITDA and EBIT lower than the first half of last year, and was also a part of why our EPS was lower for the first half as well. In addition, though, there we did also incur some foreign exchange losses, and I will go through those in more detail later on also.

From a cash conversion perspective, the business continues to have very strong cash conversion, with a first-half ratio of 75%. That is lower than the first half of last year, as expected, because of the higher Capex associated with the Margin Improvement Programme. However, looking ahead into next year, we would expect that ratio to increase back to historical levels as that MIP Capex is behind us.

From a revenue perspective, again we saw first-half organic revenue growth in constant currency of 1.5%. As Paul said, that was boosted by a little over $5 million from the EuroTec acquisition. Then against that, we did have an approximate $15 million negative impact from foreign exchange movements, mainly related to the decline of sterling.

MIP update – H1 2017 progress

On gross margin, as I went through, we saw a 40-basis-point performance improvement driven by continued implementation of the Margin Improvement Programme. When you look at some of the key achievements in the first half that drove that, in particular we completed the closure of the plant in Greensboro on time at the end of March, and that reduces the number of plants that we have from 11 before we started the programme to 8 today. As a result of that, about 84% of our manufacturing employees are now based in low-cost locations. We also continued to make progress on our training, and so we have now trained about 80% of our manufacturing staff on lean processing techniques. So, all of that together drove the 40-basis-point performance improvement that we saw.

Now, against that, it is also fair to say that not everything went smoothly in the first half. As Paul went through, we did face some challenges, particularly in relation to the ramp-up of activities in our plant in Haina, in the Dominican Republic, where some of those ramp-up activities were more challenging than we anticipated. Frankly, that did cause us some delays, but as Paul went through, the Operations team have worked very hard to develop mitigating actions for those challenges and have been doing very well at implementing those. They also continue to be very focused on all of the other activities that need to get delivered in the second half of the year, and again we are very pleased with the progress that we are making across all of those. As a consequence, we continue to expect for this year that we will deliver approximately half of the overall programme benefit cumulatively, of around 150 basis points through the course of this year.

Opex Overview

On operating expenses, as I mentioned, our Opex did increase significantly during the first half, to 37% of sales, again driven by planned investments in the business, public company costs and also timing impacts as well. Just to put this number in context: if you think back to when we gave our full-year guidance here back in March, we did say that we would continue to invest in the business, but that we were targeting to do so within the historic range that we have had as a private company of around 33–34% of sales. On top of that, we did say that we would have approximately an additional $15 million from public company costs so, in other words, an all-in range including those costs of 34–35% of sales.

Clearly, we were significantly higher than that in the first half, and there are really two main reasons for that. The first is, again as we expected, the revenue growth this year is more weighted towards the second half, and so obviously that has an impact on the first-half ratio as a percentage of sales. Then in addition to that, we have actively chosen to weight more of our OpEx towards the first half this year, again to bolster the growth initiatives and the product launches. We continue to target our full-year Opex to be in that range of 34–35% as those H1 timing issues unwind in the second half.

H1 2016 – H1 2017 EBITDA bridge

That Opex increase certainly was a factor in the EBITDA decline in the first half. Just walking you through the bridge from left to right, H1 last year we had EBITDA of $226 million. Then the revenue growth that we saw, along with the gross margin expansion, drove a $13 million increase on the gross margin line. Against that, we obviously saw the significant increase in Opex that we have gone through. From a foreign exchange perspective, overall we saw an

approximate £8 million benefit from foreign exchange in the first half, with the negative effects that we saw on revenue more than offset by the positive impacts on both gross margin and Opex as well. Overall, that led to EBITDA for the first half of this year of $216 million. Likewise, we saw our EBIT decrease from $209 million in the first half of last year to $194 million in the first half of this year, which obviously was a factor in the net profit bridge as well.

H1 2016 – H1 2017 net profit bridge

Again, walking you through left to right on the bridge, H1 of last year we had pro forma net profit of $151 million. That is pro forma for the capital structure that we put in place at the time of the IPO. Then we had a $15 million reduction from EBIT. Our finance costs are approximately the same as H1 last year, but we did have $21 million of other expense in the first half of this year, and that mainly relates to the $20 million of foreign exchange losses that I mentioned. Within that, approximately $9 million came from normal trading activities, and that offsets, in effect, the $8 million of benefit that we saw on the EBITDA line. We did, though, see an additional $11 million of foreign exchange losses coming from the accounting for the effect of foreign exchange movements on non-trading inter-company balances. That was also a part of what happened on foreign exchange. Then we have a positive tax effect related to those movements, which overall brings us to $119 million of net profit for the first half of this year, or six cents a share.

Good cash conversion and strong balance sheet

We continue to have very strong cash conversion as a business, with a first-half cash conversion ratio of 75%. As I mentioned, that is lower than the first half of last year, as expected, because of higher Capex this year associated with the Margin Improvement Programme. As we move into next year, we would expect that ratio to revert back to the higher historic levels with that Capex behind us.

From a net debt perspective, our net debt at the end of June is unchanged from year-end at three times net debt to EBITDA.

Capital allocation framework

That brings me to our capital allocation framework. This is a question we do get asked, so we thought it would be helpful to lay out in a slide a reminder of what we have told you on this topic before. Firstly, in relation to organic investments, we have said we will continue to invest in the business over the next few years, but targeting within that historic range of 34–35%, including Plc costs. We will continue to look to where we can augment that with strategically sensible inorganic growth opportunities, as we have already demonstrated this year through the two transactions: EuroTec back in January, and also Woodbury that was announced more recently.

From a leverage perspective, we continue to focus on de-levering. That continues to be an important focus for us. As you will remember, when we went public we started life with a pro forma net debt ratio of about 3.5 times net debt. That has already been reduced to three times now, and we also said at the time of the IPO that we expect to get that ratio below two times over the first few years post going public, and that continues to be a very strong focus for us.

In addition, given the strong cash-generative nature of the business, we have also said that we expect to pay an attractive dividend to shareholders over time. As you know, we set out a dividend payout ratio of 35–45%. We also said that we would start at the lower end of that range, but that you should expect to see that, as the leverage ratio comes down over time, the payout ratio would increase. Again, as Paul mentioned, we are pleased to be starting our dividend-paying journey today, with the announcement of an interim dividend based on the first-half results and that 35% payout ratio.

Foreign exchange impacts (vs. prior year)

Let me just quickly update you on our foreign exchange expectations for the rest of the year. From a first-half perspective, we have gone through the actual impacts that we saw in the half. In terms of the second half, we now expect to see an approximate 3% boost to our revenue coming from foreign exchange in the second half, principally driven by the recent strengthening of the euro. As a consequence of that, we expect to see approximately a negative impact on gross margin percentage of about 20 basis points. On Opex, we would expect to see an increase from foreign exchange of somewhere between $5–10 million in the second half, again mainly driven by the euro strengthening. So, for the full year, that means that the impact on revenue should be broadly neutral to slightly positive; approximately 0.5% positive favourability from currency. Gross margin, we would expect approximately a 50-basis-point boost to the gross margin percentage from currency. Then on Opex, it should be roughly neutral in terms of foreign exchange impact year-over-year.

2017 guidance – confirmed

Other than updating for foreign exchange, as I mentioned upfront, our underlying perspective on the year is unchanged, so our full-year expectations remain as they were. As a consequence of that, we are reconfirming all of the guidance that we set out here back in March.

Before I hand you back to Paul, I might just briefly, firstly, thank Paul for his very kind comments at the start, but also for his support over all of my time here, as well as the support of all of my colleagues at ConvaTec, especially my teams in finance and IT. I think we have made enormous progress together over the last three years. I have to say as well, having had the opportunity to be involved in the search for my successor, I do think we have found an excellent new CFO in Frank. I think he will add enormously to the company over the next few years, and again, I think the company is very well placed for that future progress. With that, let me just hand you back over to Paul.

Summary and Outlook

Paul Moraviec

Chief Executive, ConvaTec

In summary, before we take your questions, in the first half we have demonstrated further execution of the strategy, underlying revenue growth across all of our franchises, the continuing rollout of new products, and on-track execution of our MIP initiatives. In particular, our Ostomy strategy is delivering, and growth is accelerating. We have declared our first dividend today, and our full-year guidance is unchanged. Our second-half confidence is underpinned by two things: the unwinding of the first-half timing impacts that we have

discussed, and a growing contribution from new products launched late in 2016 and the first half of 2017. With that, we are very happy to take your questions.

Q&A

Ian Douglas-Pennant (UBS): Two questions, both Opex, please. Obviously, Opex was higher than you initially expected in the first half of the year. If this is increasing investment levels, does that mean you are expecting a return on these investments in the second half? It seems like that would have a downward impact on your expectation for full year profit, if you are increasing investments in the first half.

The second question is: given you have decided to pull that forward, do you need to reassess the Opex guidance that you have given, that was appropriate when you were under private ownership, but the incentive to invest here is a little bit different than it was then?

Nigel Clerkin: Ian, no; on the second one, we are continuing to target on the full year this year Opex to be in that range of 34–35% of sales, and that continues to be our expectation in terms of the future perspective over the next couple of years as well. I think as we said before, we will continue to invest in the business over the next few years, so you should not expect to see positive operating leverage from us, in the sense of revenue growing faster than Opex over the next few years; you should expect to see that over the longer term. We will continue to invest in the business, but we will target doing so within that 34–35% framework.

Paul Moraviec: I think in terms of Opex spend, we would certainly expect to see benefit from that in the second half, which is what we always expected to happen. If you think about the new products that have been launched through that first half: Esteem Flex Convex, the GentleCath Glide in the US, Flexi-Seal PROTECT, the Neria Guard, US rolling out the Foam Lite. In Europe, we ran a major Ag+, our Anti-Biofilm product campaign; and Avelle, of course, as we have rolled out Avelle. All of those campaigns require a bolus of A&P at the front end of the year, which is quite normal, which would then reduce as we go into the second half. We would expect to see the benefit on the top line for those.

Yi-Dan Wang (Deutsche Bank): Very good performance on the Ostomy side, so if we adjust for the 1% pricing effect you had, you are effectively close to market growth rate, yet your target is to get there by 2020. The question is: how sustainable is the performance we are seeing here? If you could give some colour on the significance of the US contribution, that would be great, so roughly how much of your Ostomy sales are coming from the US and how fast that book of business grew, and how we should expect the rest of the regions to change over time? Thank you.

Paul Moraviec: I think the first thing is, we never actually said when we would get back to market growth. I think there was some speculation out there from people; that was a market view. What we have also said is that we would return to market growth at different rates around the world. In the US, we had less work to do, effectively; our market position is much stronger in the US, so we always expected the US to get back up to the market growth rates faster. We are making good progress in Europe now, and I think that will accelerate through. However, the major contribution to the growth you are seeing at the moment is absolutely the US. That is the clear execution of the strategy: number one is we are doing better in the

hospitals, so we are getting more patients out of the hospitals in the first place, but the direct-to-consumer campaigns are the area where we are having the most success; our web-based programmes, me+, etc. We are getting fewer losses of patients once they leave the hospital, and are getting a good and growing rate of conversions as well. All of those are yielding incremental dollars.

We are delighted with the execution of the programme, and I think it is absolutely sustainable. The rate that you are seeing in Q2 we believe is sustainable. In fact, if you look at the second half, we have also got ramp from the US GPO in the fourth quarter, but also Esteem Flex Convex is going extremely well, so we are very confident that we will be able to maintain that type of growth rate with Ostomy, and probably a little better.

Yi-Dan Wang: Roughly how much of your Ostomy sales are from the US? How fast did you grow in the US, if we could be a bit more specific?

Paul Moraviec: We are not being specific on those two items.

Yi-Dan Wang: Okay.

Amy Walker (Peel Hunt): Thanks. Good morning, everyone. Just a few for you, if I may. Nigel, could you just aggregate the quantum of the launch costs in H1 versus the timing issues versus the contribution of the $15 million plc costs, just to give us an indication of how those split out, please?

In Wound Care, can you give us an indication of what your actual revenues for Avelle have been so far, either cumulatively or year to date?

In Continence & Critical Care, the synergy benefits that you are alluding to: again, could you give us some indication and timelines around how major those are likely to be, at the cost and at the revenue level?

With the Woodbury acquisition, can you talk to us about how forward integration, if at all, impacts the margins in that business, please? I will leave it there for now, thanks.

Nigel Clerkin: Amy, I will take your first one and your last one there. In terms of the first half, the Plc costs in the half were approximately $7 million, so roughly an even weighting of those between the first half and the second half, actually. The bigger factors, really, on the proportion of sales come down to the weighting of the revenue growth between the first and the second half. Then in terms of the absolute number in the first half, the launch cost and other costs associated with that were obviously the more meaningful element of that.

On Woodbury integration, we are not going to give specific guidance on individual line-out and contributions, but no, I do not think it would have any material impact on our overall margin profile. You had one or two other questions, I think, in the middle, for Paul.

Paul Moraviec: On Avelle: we are not actually giving specifics on Avelle, I think pretty consistent with other people. The way to think about Avelle is, as I have described it many times, as a build, because you need to set a lot of foundations in place. It is still relatively early stages in the first half, but we are actually very pleased with the momentum that we are seeing at the moment. Month on month, we are getting more and more sales, more and more buying accounts and a lot of accounts in the pipeline, so I am extremely happy with the

progress of that. That will result in a much more meaningful contribution in the second half, which is when I expect to see a much more meaningful impact.

CCC, I did not quite get the question. Could you repeat that, please?

Amy Walker: Yes, sorry. I think Nigel covered off both, it was the synergy benefits and whether or not there would be a mix effect through the forward integration, so I think we have covered that. Thank you.

John Crosse: Let us go to the webcast for a moment, if I may. There are a couple of questions that have come in there, if I read them out. 'Organic growth guidance implies an acceleration to around 6% organic in the second half. How confident are you in this target? What are the main uncertainties?' That is the first question. The second question on the webcast is around expectations for H2 Opex.

Paul Moraviec: Okay. I think as far as the second half is concerned, the important thing is that the fundamental assumptions that we put in place for this year are completely unchanged. The timing issues such as MIP, the ID timing, the GPO and the second-half weighting of the new product launches are exactly the same as they have been. That impact that we would naturally see in the second half is there.

The next question is: so, what are the variables that we should be considering here? The first one is with Ostomy, we are moving faster than expected, so we get a nice benefit from Ostomy. Conversely, with Wound Care, we have had the supply constraints which have impacted us by a couple of points. As we go into the second half, we will get the unwinding of all of those one-timers. We will also get the benefit of the back-order release as well, because we are not actually losing customers as such, it is really getting product into warehouses. Then we will also see the benefits of the product launches that we launched back in the tail end of last year, plus the first half of this year. I think we have gone through the long list of products there, all of which have got good traction, we see the trajectory from those. We have clear plans in place in each of our markets and in the franchises to deliver the growth that gets us back into guidance, and that is why we are confident of that.

Nigel Clerkin: John, on the Opex for the second half: as I said, we are continuing to target a full-year Opex ratio to sales of around 34–35%. Clearly, that would imply that our second half, we are obviously targeting lower than the first half ratio which was 37%. That would be what I would say on that, although I would just remind you that there will be a foreign exchange impact on Opex in the second that would somewhat offset that, which we have gone through as well, in terms of a reported number.

Scott Bardo (Berenberg): Thanks very much. Three questions please. Firstly, on some of the consolidation in the US channel for Continence Care: can you talk a little bit more about what Woodbury adds to your existing 180 Medical offering? Clearly, a big push into home care; is there a risk of any backlash from some of your major customers in that segment? Perhaps you can talk a little bit about that.

On this division, CCC, I am surprised, given that you have such a commanding position in the supply chain and a relatively new player in hydrophilic catheters, that you are not performing better in this business, even when normalising for some of the manufacturing rationalisation. It still seems a little bit below market growth, so can you talk a little bit about what are some

of the pushes and pulls in that market, and when you believe you can fulfil your full potential in that area?

Last question relates to Ostomy: obviously, some encouraging signs; I noticed in your press release, you referred to the UK and Germany having some positive dynamics. Can you talk a little bit more about that? Do you see this as an ongoing inflection in the UK market? Are you seeing some of the benefits from the Nordic investment of GHD? Are you starting to see that channel pull through for you in Germany?

Paul Moraviec: You mean in Ostomy?

Scott Bardo: In Ostomy.

Paul Moraviec: Yes, sure. Woodbury was really the last of the larger independents in the US that was available for acquisition. There were a number of different people that were interested in that company. I think we built a good relationship there, and we were successful in acquiring them. I think strategically, that was important. Woodbury gives us more market share, increases that leadership position we have in the US and consolidates that, but also regionally, they have a good regional focus. The other interesting aspect of Woodbury: with the 180 we have a pretty extensive coverage of insurance companies, so we can now apply that to Woodbury, so there is some synergy on the top line with Woodbury there as well. I think those are the main reasons why strategically, it made perfect sense for us to go for that company. Plus, we are acquiring a super management team that are going to play a major role in that US business.

I think from an overall performance point of view, our business is restricted to the US at the moment. Our performance with 180 this year is doing extremely well and, I would say, going faster than expected. We are still gaining market share in the US, I would say that our performance is excellent there. I think with the addition of Woodbury as well, we would see that accelerating even further.

I think as far as Germany is concerned, you mentioned GHD: I am actually delighted in the way that that relationship is going. We set targets there, we are actually exceeding those this year. The rate at which we are acquiring new hospitals, winning new hospitals: we have already acquired one more hospital so far this year than we did in the total of last year. We are making very, very good traction and growing our share within that business. I am hopeful that we can continue to develop that relationship further. I think that is pivotal for us in the German business, which is dominated by the big home care companies.

I think in the UK, you have a couple of different dynamics there. The main one is the sponsored nurses, of course, those accounts. We were very successful last year in winning five of those. This year there are fewer available, but we have already won one major account, so I am very pleased with that. However, the thing that we are focused on in the UK is growing our share within the sponsored accounts that we have. Obviously, that is something that the sponsorship does not give you, so you have to work at it, but it does give you a level of access which is beneficial.

I think there are some very, very good signs in the UK and Germany, which is probably the first time in 10 or 15 years in the ConvaTec business. I am very pleased. I do not want to go waving the flags at this point in time, because I think it is a steady progress in Europe, but I

am actually very confident that Europe will follow the US in terms of the recovery of that business over time.

Scott Bardo: A quick follow-up, if I may. Obviously, you have some very good Ostomy accessory products, and made some targeted acquisitions over the last four or five years: can you share with us, of the acceleration in growth, how much of that is coming from accessories? Is that a significant driver of that?

Paul Moraviec: Yes, it is one of the major drivers, it is absolutely one of the major drivers. That is an area we want to continue investing from an R&D point as well, so it is the next on point.

Paul Cuddon (Numis Securities): Hi there, just two. Potential long-term consequences of these fulfilment issues within Advanced Wound Care, if you could take us through those, both on a short term and potentially longer-term basis?

Secondly, are there any accelerated investments that you may consider for H2, thinking of specific product launches into 2018? Thank you.

Paul Moraviec: As far as the fulfilment situation is concerned, I would expect that we would get most of that business back in the second half. It is not a serious back-order situation in the sense of impacting patients, it is more stocking in wholesalers, so I am not concerned about that. We just need to make sure that we resolve all those issues so that we get back up to full speed there, which I expect to happen in the second half.

There are no other accelerated spends, if you like, in the second half. The opposite; I think it will actually decline.

John Crosse: Okay. Thanks, Paul. I will quickly go on to the webcast again. We have one question, which I think will be for you, Nigel, from Michael Jungling at Morgan Stanley. Michael says, 'I have three questions on the FX losses in H1 of $20 million in other expenses. First one: unlike 2016, this is not an adjusted item this year; why the change?

'Second question: can you provide clarity on why this goes through the P&L and not directly to equity?

'The third question is: what is that FX number for FY17, using current FX rates?'

Nigel Clerkin: Sure. Michael, on the first one, the change in treatment: as we said when we looked at the FX add-backs for last year, a lot of them were driven by IPO-related restructuring, etc. We did say that we would revisit our thoughts in relation to how we would treat foreign exchange gains and losses in the future. Having done that, we have concluded that this is the right treatment, in part based on feedback from you and others, frankly.

Secondly, why does it flow through the P&L and not the balance sheet? Again, I think we need to split it into the component parts. $9 million is related to normal trading activities, and that, you would always expect to float through the P&L. The other $11 million, about $6 million of that relates to legacy operations that we have in Venezuela, so we do not actually have any operations on the ground in Venezuela anymore. We sell product into there, basically cash on delivery in dollars at the border. However, because of the legacy activity that was there, there is an inter-company balance. Without boring you in accounting, the reason it goes through the P&L rather than the balance sheet is because of the different functional currencies

between our Venezuela subsidiary and our US subsidiary, which originally provided the funding for that operation. That was the $6 million loss in the first half, driven by the challenges that that country is going through at the moment. The other $5 million relates in essence to inter-company lending from the euro into the USD. Again, the reason it flows through the P&L is because of that similar functional currency difference between the lending and borrowing entities.

In relation to the outlook for the balance of the year, we cannot give you a prediction on the trading element, because that will obviously depend on actual trading activity between now and the end of the year. On the non-trading, I think it is fair to say we will continue to focus on how we reduce the volatility in this line over time. It is hard to give you an exact prediction on that at this point for the second half, Michael. Based on where spot rates are today, with those legacy balances, our inter-company balances, you might expect a further impact of perhaps $2–4 million or somewhere around there.

Ian Douglas-Pennant: Haina: why should we not take this as evidence that the MIP programme is off track? Presumably, you had some safety stock, so this issue is large. Why should we not assume that you have some execution issues here?

Paul Moraviec: Yes, it is a fair question. The way we think about this, Ian, is the period in the first half of this year was the trickiest part of the whole programme. You can move machinery across to a new plant, but getting that machinery to run smoothly and at maximum volumes was always going to be the most difficult part of that. The guys have got on top of that now, and so we are very confident. Every day, Nigel and I will get a different report coming in, saying, 'Good news, good news. We are getting this, we are getting that. We are getting certifications in place.' I think it is a case of getting through that difficult hump. We delivered 40 basis points in the first half, so as far as we are concerned, we are on track, we have the momentum we need. We had a few headwinds there because of those difficulties, but the guys are on top of those now and expect everything to be on track from there onwards.

John Crosse: Thanks, Ian. One quick one has just come in from Niels at Carnegie: 'Could you briefly explain the difference between your Esteem Convex and the Accordion Convex products?

'Secondly, how many markets have you already launched your Convex products in, and how many countries would you expect by the end of the year?'

Paul Moraviec: The Accordion is a slightly different product, it is designed for post-operative patients. It allows the bag to be pulled out away from the patient, or connected to the actual wafer by the patient without causing pain to the body post-operatively. You imagine, when a patient gets operated, it is quite tender. You do not really want to be pushing a bag against a tender site, so we have a device called an Accordion, which allows you to put fingers underneath it and to clip the bag, basically, so it is less painful for patients. A very important product, very.

What was the second question?

John Crosse: The second part of the question was: where have we launched Convex already, and how many countries by the end of the year?

Paul Moraviec: Convex will be fully rolled out by the end of the year.

John Crosse: Great, thanks Paul. With that, I think I will draw it to a close. As ever, myself and Kirsty are here in the IR team to take any other questions. Thank you for coming today, good to see you. Thank you.

[END OF TRANSCRIPT]