ConvaTec

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Trading update for the three months ended 30 September 2018 and change in FY 2018 guidance

15 October, 2018 (LSE: CTEC)

ConvaTec Group Plc ("the Group" or "ConvaTec") is today providing an update on trading in the third quarter and revising guidance for full year expectations for both organic revenue growth and adjusted EBIT margin.

The revised guidance is driven primarily by a change in inventory policy by the biggest customer in our Infusion Devices franchise, which is expected to have a material negative impact on revenue in the fourth quarter of between $18 – $23 million, and to a lesser extent challenging market dynamics in specific markets in Advanced Wound Care.

Therefore, the Group now expects full year organic revenue growth to be flat to 1.0%[1], from 2.5% to 3.0%[1] previously.

As a result of this reduction in revenue expectations and consequent adverse mix impacts, guidance for adjusted EBIT margin in FY 2018 has also been revised down to 23% - 24%, from 24% - 25%.

As separately announced today, Paul Moraviec has informed the Board that he wishes to retire. He will step down as Chief Executive Officer and cease to be a Director with immediate effect. The Board has asked Rick Anderson, currently a Non-Executive Director of ConvaTec, to assume the position of Interim Chief Executive Officer.

The Board continues to have confidence in the fundamentals of the business and its future potential. Our cost out plans are under development and the Group will provide an update on these with the FY 2018 results in February 2019.

Revenue by franchise

	Q3 2018 Reported $'m	Q3 2017 Reported $'m	Reported growth %	Organic growth[1] %
Advanced Wound Care	146.8	147.9	(0.7)%	0.8%
Ostomy Care	131.4	132.1	(0.5)%	1.5%
Continence & Critical Care	107.5	96.2	11.7%	1.4%
Infusion Devices	66.5	69.3	(4.0)%	(3.7)%
Total revenue	**452.2**	**445.5**	**1.5%**	**0.4%**

Group revenue

Group total revenue in the third quarter increased 0.4%[1] on an organic basis versus the prior year, or 2.9%[2] at constant exchange rates. On a reported basis, total Group revenue of $452.2 million grew 1.5%

1. Organic growth presents year on year growth at constant exchange rates, excluding M&A.
2. Constant exchange rates ('CER') growth is calculated by applying the applicable prior period average exchange rates to the Group's actual performance in the respective period.

year on year, including the $12.3 million revenue contribution from Woodbury Holdings and J&R Medical combined, offset by unfavourable foreign exchange movements.

For the 9 months to 30 September, total revenue increased 1.9%[1] on an organic basis versus the prior year, or 5.2%[2] at constant exchange rates. On a reported basis, total Group revenue of $1,373.5 million grew 7.6% year on year, including the $45.3 million revenue contribution from Woodbury Holdings and J&R Medical combined and favourable foreign exchange movements.

Advanced Wound Care ("AWC")

Revenue grew 0.8%[1] on an organic basis in the third quarter, a modest improvement versus the second quarter but a disappointing result. Reported revenue of $146.8 million declined 0.8% compared to the prior year.

As expected, growth trends in our older DuoDERM™ and base AQUACEL™ Hydrofiber™ products continued to normalise during the third quarter, although our skin care business remains a drag on growth. Our foam range of dressings and AQUACEL™ anti-biofilm silver delivered good growth in the quarter. In October we launched AQUACEL™ Ag Advantage in the US, following 510k approval in July. Avelle™ revenues continue to grow, although we still expect the contribution to the franchise overall this year to be modest.

In the US the recovery in surgical cover dressing, as we win back hospitals and surgeons following the supply constraints of last year, is taking longer than expected.

As previously outlined, our Wound acceleration plan is being rolled out across the US to address performance issues, focusing on account conversion, re-positioning our foam offering, salesforce effectiveness and expanding our reach into the post-acute channel. However, the financial benefits, particularly from increased penetration of the post-acute segment, will take time to ramp up and are at the low end of our expectations for FY 2018.

In the UK we continue to see some challenging market dynamics, including NHS supply chain tendering activity.

Ostomy Care ("OC")

Revenue grew 1.5%[1] year on year on an organic basis in the third quarter, driven by new products and the benefit of a weaker comparator period due to the supply issues experienced throughout the second half of 2017. Revenue of $131.4 million fell 0.5% against the third quarter of 2017 on a reported basis.

We anticipate that the impact of the supply constraints and associated patient loss in FY 2017 will be towards the upper end of previous guidance of 50 - 100 bps of Group organic revenue growth in FY 2018.

We saw good performances in Latin America and Asia Pacific during the quarter and continuing positive trends in some smaller European markets.

Ongoing investment in our me+™ platform is driving momentum in me+™ patient enrolment and we continue to see good traction with our recent product launches of Esteem™ + Flex Convex, Natura™ Convex Accordion Flange and Varimate strips. We will launch an additional product in the Esteem™ + Flex Convex range in the fourth quarter.

We were also pleased to agree a 2 year extension to the Vizient GPO contract for Ostomy in the US. This contract now runs until June 2021.

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Continence & Critical Care (“CCC”)
Revenue grew 1.4%[1] year on year on an organic basis, with HDG (“Home Distribution Group”) and sales of GentleCath™ driving overall franchise growth. This was offset by the packaging recall in our Slovakia plant and ongoing product rationalisation in Critical Care, which impacted growth in the third quarter by c. $3.5 million and c. $0.5 million respectively.

In our Slovakia plant, around 70% of the affected products have now been repackaged and released to market, and we anticipate the majority of the remaining 30% will be resolved by the end of the year. Our estimate of the total revenue impact in FY 2018 remains unchanged at less than $5 million.

The female version of our next generation catheter is already CE marked and is now being trialled by patients in Europe. Feedback from patients has been strong and we will ramp up launch activity over the coming months.

On a reported basis revenue of $107.5 million grew 11.7% year on year; this includes a combined revenue contribution of $12.3 million from Woodbury Holdings, which was acquired on 1 September 2017, and J&R Medical, which was acquired on 1 March 2018. On 1 March 2018, the Group also divested its Symbius Medical respiratory business - revenue for this business in the third quarter of 2017 was $1.4 million.

Infusion Devices (“ID”)
Revenue declined 3.7%[1] year on year on an organic basis, following significant tailwinds which boosted growth in the first half of the year and a strong prior year comparator in the third quarter. Revenue of $66.5 million declined 4.0% year on year on a reported basis.

The Group has been advised by our biggest customer of a change to its inventory policy and expected ordering patterns. This is expected to have a material negative impact on revenue expectations for the fourth quarter of between $18 – $23 million compared to our previous expectation.

Senior management changes
As separately announced today, Paul Moraviec has informed the Board that he wishes to retire. He will step down as Chief Executive Officer and cease to be a Director with immediate effect. The Board has asked Rick Anderson, currently a Non-Executive Director of ConvaTec, to assume the position of Interim Chief Executive Officer with immediate effect, until a suitable candidate is appointed to replace Mr Moraviec. Rick has over 25 years experience in the MedTech sector, most recently as Group Chairman of Johnson & Johnson and Worldwide Franchise Chairman of Cordis Corporation.

In September Tim Moran, President, Americas, left the Group to take up an external position. Ken Donlon has assumed the role of Interim President, Americas, and a search for a permanent successor is underway.

Outlook and guidance
- Organic revenue growth now expected to be flat to 1.0%[1], from 2.5% to 3.0%[1]
- Adjusted EBIT margin reduced to 23% to 24%, reflecting the margin impact of reduced revenues and adverse mix, from 24% to 25% previously.

Guidance for FY 2019 and an update on our cost out plans will be provided with 2018 Annual Results in February 2019.

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There will be a webcast 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:

- *Telephone number:* *UK: 020 3936 2999*
  US: 1 845 709 8568
- *Passcode:* *927768*

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

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Revenue by Geography

	Q3 2018 Reported $'m	Q3 2017 Reported $'m	Reported growth %	Organic growth[1] %
Americas	231.9	225.6	2.8%	(1.1)%
EMEA	184.6	185.3	(0.4)%	1.3%
APAC	35.7	34.6	3.2%	5.5%
Total revenue	**452.2**	**445.5**	**1.5%**	**0.4%**

Revenue in Americas declined 1.1%[1] on an organic basis, driven primarily by Advanced Wound Care, partially offset by HDG. On a reported basis revenue grew by 2.8% with the inclusion of Woodbury Holdings and J&R Medical.

Revenue in Europe, Middle East and Africa grew 1.3%[1] on an organic basis as a result of higher revenues in Ostomy Care and Advanced Wound Care, partially offset by Continence & Critical Care. On a reported basis, revenue declined by 0.4% due to unfavourable foreign exchange movements.

Revenue in Asia Pacific grew by 5.5%[1] on an organic basis, primarily driven by a good performance from Ostomy Care and Advanced Wound Care, partially offset by lower revenues in Continence & Critical Care. On a reported basis revenue grew by 3.2% due to unfavourable foreign exchange movements.

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Foreign exchange rates

	Q3 2018 Average	Q3 2017 Average
USD/GBP	1.303	1.309
USD/EUR	1.163	1.175

About ConvaTec

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

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