ConvaTec Group 2018 Annual Results & Business Update

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London - 020 7870 7100
www.global-lingo.com

Welcome

John Crosse

VP Investor Relations, ConvaTec Group

Good morning everybody and welcome to ConvaTec's 2018 Annual Results. Probably most of you know me but I am John Crosse, VP of Investor Relations. One housekeeping point from me before we start. There are no planned fire alarms today so if the fire alarm does go off it is a real one unfortunately and please fall a ConvaTec or a UBS member of staff out of the building. Without further ado I will hand over to Rick Anderson, our CEO.

Introduction

Rick Anderson

Chief Executive Officer, ConvaTec Group

Hosts & agenda

Good morning. Welcome to our results presentation. I am Rick Anderson, and I am joined by Frank Schulkes our CFO and Donal Balfe our Executive Vice President of Global Operations. First of all, I am going to take a little time to introduce myself to you this morning and I will give you my initial observations on the business as the interim CEO of ConvaTec. Then I will ask Frank to take us through the numbers and operations.

Whilst it is important to look back and understand the past performance, the value of this business is clearly in the future. The main part of this morning's presentation is going to focus on that. We have a sound strategy, we just need to execute it much better. I am going to give you a very candid view of where this business stands today. I will tell you what we are doing about it. Then I will tell you what that means for the future. We have started a Transformational Initiative to significantly improve execution. It is focussed on both top line and profitability. Frank and Donal will present more on this later and then we will be happy to take your questions.

First, a little, quick background on me. I became CEO last October and I know this industry well. I have more than 30 years' experience in this space. Most of my career is in medical devices. I also have very relevant experience of many of the issues facing this business now. For the past 12 years I have been in private equity focussed on turnaround and high growth medical device companies. Prior to PE I was the global Chairman of the cardiovascular medical device business at Johnson & Johnson.

Business review and initial conclusions

Moving on to slide four, let me tell you where I have been spending my time for the last three or four months. The Board gave me a clear mandate to set the conditions for success for the new CEO. However, that needed to start right now. The changes and steps that I am taking will not constrain the new CEO in any way. I have been conducting deep-dive reviews in the business. I have challenged the franchise and the Group strategy plans. I have reviewed in detail our manufacturing operations and products. I have also reviewed our cost-out programme. This is now part of our operational excellence programme. Of course, we have been building the 2019 budget.

My initial conclusions are clear and they will not be a surprise to many of you. Our markets are as attractive as ever. We have a number of leading market positions supported by great products. However, our execution has let us down too many times. As a result we have underperformed our peers in the market. We have also had too many products that are losing market share or are dated. We are in too many geographies where we are making low returns. We are failing to bring innovation and new products to the market successfully. All of this leading to financial underperformance and our targets being missed.

With that sober assessment I am going to turn over to Frank and then I will come back and talk about our execution plans in a few minutes.

Financial and Operational Review of 2018

Frank Schulkes

Chief Finance Officer, ConvaTec Group

Financial highlights

Performance in line with revised expectations

Good morning. Let me take you through the 2018 results. As Rick mentioned, our overall performance in 2018 was disappointing. Group revenue for 2018 was $1.83 billion, up 3.8% reported. Stripping out FX it goes up 2.7% and stripping out acquisitions we were up 0.2% on an organic basis. Reported revenue growth included a $44 million benefit from recent M&A and a $19 million tailwind from FX rates. Adjusted gross margin was 60.2%, 80 basis points lower than last year with a small positive contribution from FX. Our operating cost increased as expected in 2018 reflecting the investments in Woodbury and J&R, as well as in commercial areas such as US Wound and HDG and expanding regional firepower in areas like China and other emerging markets. Coupled with the negative impact of price and mix this took adjusted EBIT margin rate to 23.4%. Earnings per share remained flat and the Board has proposed total dividend per share of 5.7 cents which is in line with 2017. Our cash conversion remained strong and increased to 81% from 77% last year, while leverage continues to go down. It is now 2.7x, down from 3.0x last year.

2017-2018 revenue bridge

Revenue growth was 3.8% on a reported basis and 0.2% organic. Advanced Wound Care was slightly positive on an organic basis. Ostomy Care declined by 0.5% while CCC was up just north of 4%. ID, as expected, was -3.5% and the revenue contribution from our recent acquisitions, Woodbury and J&R, was $44 million or 240 basis points of growth. Finally, FX rates gave us a revenue tailwind of $19 million or 110 basis points of growth.

FY 2018: Franchise performance

Two franchises underperforming

Two of our businesses underperformed in 2018. In Advanced Wound Care revenue for the year grew 0.2% organically and in the fourth quarter we saw a decline of 1.8%. The weak performance is driven by a number of factors. First, our legacy portfolio is showing single-digit declines. It has improved from the first-half but we are still negative in the second-half. Furthermore, in the US we underperformed and did not see an improvement in the growth of surgical cover dressings after the 2017 supply issues. Overall procedures for surgical cover dressings are down from a peak in 2016 and alternative therapies have taken some share.

Rick is going to talk about improved execution shortly and in fact this is already underway with new leadership here. George Poole has moved from Asia Pacific to become President of the Americas regions and David Shepherd has recently joined us as President of Advanced Wound Care. This new leadership team is refining the strategy and improving execution in the Wound business in the US. Finally we continue to see pressure in the UK market and we also experienced some de-stocking with a big distributor which will continue in the first quarter of 2019.

More positively we saw good growth continuing from Foam and from our silver Anti-biofilm product which has now been launched in the US as AQUACEL™ Ag Advantage. We expect these products to be important contributors to the return of growth in 2019.

In Ostomy Care revenues were down 0.5% in total year 2018 and 1.5% in the fourth quarter. The main driver of the 2018 performance is the lost patient revenue that we experienced as a result of the 2017 supply issues. NPC rates have been resilient but we have seen some decline in the US. There also was some timing of distributor orders as we called out in October and we had a tough comp related to strong orders in Japan in Q4 of 2017.

We continue to invest in our direct-to-consumer programme, me+™, which is driving patient enrolments and opportunities to grow our customer base. We saw good performances from Latin America and from certain markets in Europe, as well as in Asia Pacific.

Two delivering in line with revised expectations

In contrast two of our franchises are fundamentally performing well. In CCC revenue grew 4.1% on an organic basis in 2018 and 3.9% in the fourth quarter. We continue to see very strong performance from our Home Distribution Group in the US and our recent acquisitions are performing well and have enabled us to extend our high touch patient care model to a wider customer base. You will remember the packaging recall we started in the third quarter of 2018 and as expected this has continued into the fourth quarter and is the principle reason for the slightly weaker growth in the second-half. In the fourth quarter the impact on revenue was about $1.5 million and we exited the year with a backlog of around $2 million that should be cleared by April of 2019. Our next gen catheter has received very positive patient reviews in patient trials and we are starting to ramp-up commercial launch activity for the second quarter.

Finally, ID. Revenue declined 3.5% for the year. As you know, this decline was driven by a change of inventory policy and related order patterns at our biggest customer. This resulted in a $20 million revenue shortfall in the quarter or a decline year-on-year of 25%. Excluding this revenues would have been up around 4% broadly in line with the market, which underpins our confidence in the growth outlook for the ID business. However, as we have previously mentioned we expect revenue growth in ID in 2019 but this will be impacted by Animas exiting the market.

Margin and cost review

On slide 10 you can see more detail on our gross margin and cost in 2018. Starting on the left with gross margin this was 60.2% for the year, an 80 basis point decrease year-on-year with a small positive contribution from FX. Price and mix had a negative impact on gross margin rate in 2018 and productivity we delivered gross savings of about $20 million. However, these benefits were offset by headwinds and cost increases like higher depreciation, inflation and freight costs. On top of that we incurred incremental cost related to the CCC recall and we had some inventory right-offs. Our OPEX grew to 36.7% of revenues in 2018 through our investments in Woodbury and J&R and through the regional investments such as China and some EMEA markets. We laid the foundation for a return to growth in US Wound in 2019 as well as continuing to feel the success of HDG. R&D expense increased to 2.7% of sales primarily to support new product development in CCC and Ostomy along with some project write-downs as part of our more focused approach to products, segments and markets.

Good cash conversion and reduced leverage

Finally, cash and the balance sheet. Cash conversion in 2018 improved to 81% from 77% in 2017 while debt leverage was further reduced from 3.0x at the end of 2017 to 2.7x now. During the year we made a voluntary prepayment to borrowings and we paid a dividend of $75 million. Overall this demonstrates the strong cash generating ability of the company and we continue to target 2.0x leverage. Thank you, back to Rick.

Execution Model 'Pivot to Growth'

Rick Anderson

Chief Executive Officer, ConvaTec Group

ConvaTec in numbers

Over the next few slides I am going to lay out the challenges we face in our business. Then I will cover the structures and approaches we are putting in place to make the necessary changes actually happen. On this slide you can see the scale and scope of the ConvaTec operations. It is easy to lose sight of the fundamental strengths of this business after a series of execution misses. This is a business with almost $2 billion in revenue, strong cash conversion and, on the whole, good products in good positions in large, growing markets. These are all strengths that we need to build upon. However, we have got weaknesses. Over 95% of our revenues come from just 20% of our SKUs. We are selling a lot of products that generate little revenue. Our top ten markets account for 65% of our revenue and that says a lot about where the opportunities are.

Our markets offer attractive structural growth

As you know, we operate in great markets. Our addressable market is about $10 billion, growing consistently at 3-5%. In developed markets aging populations and an increase in chronic conditions underpin this growth. In developing markets these factors are further boosted by growing GDP and access to healthcare and surgery. On the flipside pricing pressure has now become the industry norm. Tight healthcare budgets and the rise of generic competition will not go away.

Leading market positions, products and brands

In every one of our franchises we have products that patients love, products that make their lives more comfortable and easier. We have an enviable position in silver dressings with around a third of the global market and a very strong brand in AQUACELL. In Ostomy we continue to drive patient engagement with our direct-to-consumer programme, me+™. In CCC we have a great product in GentleCath™Glide and over 30% of the retail market in intermittent catheters in the US with HDG. Plus we have our next generation catheter launching in Europe. In Infusion Devices we are the market and we are building on that position with further innovations including outside of diabetes. These are strong starting points.

Execution has hurt financial and commercial performance

Let me give you more detail on the problems we faced and what this meant to the business. First looking at revenue, too many of our products generate low revenue and profit so the performance of our premium products is diluted. We have got distracted by marginal opportunities so we have missed our revenue targets. We are well-below market growth rates. Second on price, we have not been effective at selling the differentiated nature of our products and there has been no consistent approach to pricing. Our investment in innovation has been spread too thin. We are vulnerable to price erosion and we are seeing that in our legacy Advanced Wound Care portfolio. Our R&D pipeline is down versus 2017.

Third process, in many parts of our business our processes are just too complex so we are making costly errors and mistakes. We have had project execution failures such as the move to Haina that really hurt us. In our supply chain manufacturing has not been as predictable as it should be and that creates inefficiency and extra cost. Frank has talked before about needing to develop our project management muscle and that needs to remain a priority.

Fourth, we have been poor commercially. We have missed expectations. US Wound is a prime example of that last year. We did not appreciate the more complex nature of the market for surgical cover dressings in the US and the new treatments coming into the space such as glues and disposable negative pressure. Our commercial capabilities have been weak so we have had delayed and poor product launches. Avelle's launch outside of the US has not been the success it should have been. We have learned from that and we expect a much stronger launch in the US which is now underway. We are now launching our next generation catheter in Europe and it is a great product. However, it should have been in the market much earlier.

Finally, in some places we have a complex management structure. Management information has not been as good as it could have been. Frank has been working on this and we are seeing improvements but there is much more to do. We also have duplication of our back office functions across the Group leading to inefficiencies and as a result admin costs are just too high.

Now, let me take a moment and talk about culture. Our employees have very strong values. They really believe what ConvaTec is doing for patients really matters. That is really important, but we need to build a more performance culture around this. We need to focus on the bottom line as well as revenue growth.

The good news is this is all fixable. Let me tell you what we are going to do about it. Before I turn to the next slide I want to highlight the common threads of really successful medical device companies I have been involved with over the years. A commitment to innovation is absolutely key. A focus on markets where rewards are the highest. A more active portfolio management to complement organic growth and selective M&A. All of this is best achieved with a decentralised management structure in which franchise and market teams are accountable and appropriately incentivised.

Our execution model needs to 'Pivot to Growth'

These are the principles underpinning what I call our 'Pivot to Growth'. This programme has three distinct elements: Simplify, Innovate and Segment. All three of these are supported by our commitment to Investment and I will talk about each of these in more detail over the next few slides.

Simplify

First Simplify. We want to create an organisation that makes quicker decisions, is more responsive to market changes and opportunities and has a lower cost operating model. In the future we will have more focused franchises with leading positions, a simpler management structure, a shared services approach to support functions and a clear ConvaTec way of doing business to ensure operational excellence and consistency. To make that happen we have launched a Transformational Initiative which I am going to talk about shortly. Our operational excellence programme will deliver efficiencies and we are making sure management incentives encourage ownership and decision-making at the franchise and market level. We will continue to rationalise our product portfolio to reduce cost and improve profitability. We will end up with a simplified range of more profitable products, higher revenue growth, quicker decision-making and a more responsive organisation which is closer to the customer.

Innovate

Next Innovate. We need to spend more on R&D and spend it better. We need to support our internal efforts with targeted M&A to boost innovation. In the future we will see a more consistent pipeline of new products and services. This has benefits to drive both tangible and intangible value to our organisation. It makes the business more resilient to pricing pressure or generic incursion. It also enhances the value of the ConvaTec brand as customers are more loyal to innovative companies that clearly understand their needs.

Segment

Thirdly on slide 20 Segment. We will invest more in value-based clinical evidence to support product development. This will also allow us to command a premium and offset pricing pressures. We will manage our portfolio more actively and we will be more efficient in our spend. Our goal here is to focus on premium markets, premium segments and attractive geographies. We will back our winners much more heavily. We will focus on what matters rather than being distracted by smaller or less valuable opportunities. We will support pricing power longer-term by reducing our exposure to commoditisation. It will also improve the quality of our revenues with less volatility as we drive customer demand. We will have increased profitability, more predictable revenues and we will be able to focus more firepower on our biggest opportunities.

Invest

Clearly this execution plan brings a reshaping our income statement, particularly our cost base. I want to see us be more efficient and effective with our current spend but also we need to increase our investment in key areas such as selling and distribution, for example, in US Wound our global catheter launch and APAC expansion. We will also need to invest more in R&D which will drive higher and more reliable revenue growth over time. At the same time we need to become more efficient and leverage our back office. We need to reduce our G&A cost.

Changes to our leadership team

Getting the right people in the right positions will be crucial to our success and we have upgraded our Executive team. Recently George Poole moved from APAC to be the new President of the Americas. In APAC George was successful in establishing a high quality team, building out our presence in China and improving our channel strategy and commercial execution.

We have hired Supratim Bose as the new President of APAC. He joined ConvaTec last month from a similar role with Boston Scientific. He is a J&J veteran spending nearly 30 years in increasing roles in Asia Pacific.

We also got David Shepherd as the new Group President for Wound. David joins from Johnson & Johnson where he worked for 26 years in a variety of sales, marketing, strategic and operation roles.

I have worked with Supratim and David before and they have proven track records of great execution and strong leadership. I am impressed with the quality of our Executive team. They bring significant capability and experience, both in running the business and in transformational experience. I am very confident we will be able to improve performance through our enhanced execution model.

Transformation Initiative to accelerate and amplify delivery

On the next slide here is what our Transformational Initiative looks like. In simple terms this is how we are going to implement the principles of the 'Pivot to Growth'. The purpose of the Transformation Initiative is to accelerate and amplify delivery and execution. This is a CEO-led initiative and it is supported by the Group Executive Committee. It will be delivered by ConvaTec people with some new hires who are specialists in transformation and supported by external consultants where required.

We have four work streams to deliver our strategy. Each of these is headed up by a member of the Executive Committee. The matrix on this slide shows you how the elements of the 'Pivot to Growth' are addressed by each work stream. It starts with the customer. Commercial Excellence will drive more effective product launches, improve pricing and ensure we are focused on our customers. Operational Excellence, led by Donal, includes our efficiency programme which he will explain in more detail in a moment. Business Services Transformation aims to deliver savings in the back office and portfolio optimisation will move our focus to high growth, high margin segments and geographies.

To be clear, the transformation office aims to be a centre of excellence. It will provide support and expertise to accelerate and amplify projects in these four areas. It will be owned and delivered by us, ConvaTec. All of our people will be held personally responsible for the delivery of our strategy and you will see at the bottom of the slide the high level objectives for the short, medium and long-term. Our immediate priority is to define the full potential for ConvaTec. We are looking at all options to accelerate growth and profitability. Next we will start our restructuring activities, executing against our new operating model and we will reinvest in R&D and commercial areas to drive growth. Further out you will see us move closer to a steady state.

Transformation Initiative – investments and benefits

Now let me tell you about the cost associated with the Transformation Initiative. We are going to invest $150 million over three years. This investment will be spread across the four work streams I told you about earlier and we will expect this project to have a 2-3-year payback. About a third of the spend is going to be in CAPEX. The remaining spend will be operational. There will also be further cost of about $50 million per annum by 2021 and these will be recurring costs. We will expect to see these costs coming through in our US Wound, our global catheter launch, our APAC expansion, our next generation Ostomy products and in ID in our continuing expansion outside of diabetes.

Transformation Initiative – a deep dive

Let us look in more detail at the operational excellence programme. This work stream will be led by Donal. We expect to deliver $80 million of run rate benefits by 2021 with a total cost of $50 million over three years and 60% of the spend will be in CAPEX. This programme will deliver sustainable productivity improvements. We expect benefits to go beyond the initial three-year period and the annual benefits in 2023 will be around $120 million. Now I am going to ask Donal to do a little deep dive into the detail for you.

Operational Excellence

Donal Balfe

EVP Global Operations, ConvaTec Group

Good morning everyone. I am Donal Balfe, I head up the Global Manufacturing and Supply Chain for ConvaTec. My job is to make product and deliver it to our customers. Big on my priority list is attaining the $80 million of cost savings that Rick just mentioned.

I'm going to show you in the next few minutes the clear methods we have already put in place, the improved structures and the drive to implement a continuous improvement culture at ConvaTec. This will be in the key areas of quality improvement, value engineering, supplier management excellence and yield improvement and scrap reduction

To achieve this, we have significantly strengthened our capability. We have made a lot of team changes and brought in some excellent people. We have strengthened the culture in the drive for continuous improvement. I will also show you some examples of where we have already successfully delivered some projects and where we are going to build on these in the future. The key point here is that the plan is solid, it is grounded and realistic, and it is delivering today.

A quick bit of background on me. I have got extensive relevant medical device experience. I have worked for 17 years at Medtronic. I have carried out exactly this type of operation. I have moved production lines from one facility to another and from one country to another. I have managed value engineering projects. I have implemented lean manufacturing programmes and all these have saved millions of dollars. I think I bring some very relevant learnings to ConvaTec

Operational excellence framework

On this slide let me talk you through our framework for operational excellence. These are four of the areas we want to target, all through a culture of continuous improvement. They range from implementing lean manufacturing processes, through quality improvement and supplier management excellence, all serving to delight our customers with our performance. This means that we have all the key bases covered to drive performance.

Two case studies

Hydrofiber manufacturing – quality improvement

To try and bring this alive for you I have a couple of case studies of real-life projects that we are running or have already completed. First a summary of a project completed last year in our Deeside manufacturing plant in North Wales. This is a good example of a continuous improvement culture delivering tangible savings on the factory floor. Our production associates identified inconsistent processing conditions at the silver textiling machine. This caused uneven fibre distribution which led to manufacturing problems at the stitch bonding process. The picture on the right is the stitch bonding and it is the process that makes the Hydrofiber dressing stronger. We need tensile strength. This inconsistency in the material feed in textiling was unfortunately leading to a lot of waste in the form of reject stock. The production associates mapped the manufacturing process, they identified the critical quality characteristics of each stage of the production and they believed that reject stock could be reduced with improvements to the machine sensors as well as to the method that we feed the product into the machine. They were right. We saved $250,000 last year on that particular project. Looking ahead, the learnings from this project are now being shared across the plant and this has led to a further 19 projects currently underway in Deeside, which are expected to contribute roughly $0.5 million of benefits in 2019. We have a very good team in Deeside delivering this.

Wound Care accessories value engineering

Below on the second project I have an example of margin improvement in our skincare range of products. Again, the initiative was a proposal by our R&D team that shows value engineering. It takes an existing product and redesigns it for reduced costs. The team have explored changes in product formulation, packaging and also a switch to outsourced manufacturing for a part of this product range. The team have developed a number of playbooks so that we can bring efficiencies to similar projects in the future. We expect this project to deliver cost savings of over $800,000 in 2019.

Driving continuous improvement

I mentioned developing a continuous improvement culture. What does that mean? This is an ongoing process where we come up with ideas, we put them through a stage gate process, select the good ones, implement them, take the saving and then start again. You can see on this slide some of the improvements we are making to the execution of the governance around the programme. Many of these changes are already in place. A lot of the programmes that we have will be delivered on the factory floor or in the warehouse and we have made investments in a number of areas.

We have increased the oomph in project delivery. For example, we have hired additional engineers, project managers and continuous improvement specialists. When you look at the capabilities in our manufacturing plants of black belts and green belts to actually drive the lean processes and deliver those productivity improvements, we have more than doubled the number of green belts and we have also added some master black belts.

We have robust governance process with the project managers on the ground reporting into regional leads and then into the global operations and project management office, which is run by Padraig Murphy, our VP of Engineering Excellence and he reports to me. There are weekly site reviews checking that we are on track, we are identifying risks and any resources that may be required to keep on target. We then have monthly progress reviews with the programme dashboards, financial and key risks and mitigations. Finally, this is all reviewed on a quarterly basis by the Executive team.

Our ongoing investments in business intelligence also help here with the tracking or reporting of project benefits utilising dashboards from our data warehouse as they come online. With that I will hand over to Frank. Thank you.

Guidance for 2019

Frank Schulkes

Chief Finance Officer, ConvaTec Group

2019 Guidance

Now I am going to talk about what this means for 2019 guidance. We expect organic revenue growth in 2019 to be between 1.0% and 2.5%, supported by improvements in our Wound and Ostomy businesses, continuing strength in CCC and positive growth in ID, although a little lower than market rates due to the Animas exit. We expect price erosion of between 1% and 1.5 % to continue and we also expect to see a modest but growing contribution from new products. Due to the near-term costs of the significant Transformation Initiative and MDR of around $50 million, we expect EBIT margin of 18-20% in the coming year. Excluding these items adjusted EBIT margin would be in the range of 21-22.5%. We expect a positive contribution from our cost-out activities but we also expect continued headwinds from price and mix, particularly in relation to new product launches. Now back to Rick to close.

Summary and Close

Rick Anderson

Chief Executive Officer, ConvaTec Group

Our execution model needs to 'Pivot on Growth'

I can see the commitment that we are showing to this programme in terms of resource and granularity is absolute. Before we take your questions a quick summary. I have given you a very candid view of where this business stands today. I have told you what we are going to do about it and what it means for the future. We believe strongly in the opportunities that lie in front of this business. This business has strong fundamentals which are worthy of this investment we are making. We are taking significant steps to improve our execution.

Medium to long-term target

What does this mean for us in the medium-to-long-term? You will recognise this slide from my introduction. We will still be in strong, growing markets. We will have strong market positions and even better products. Our execution will have significantly improved. That means our medium-to-long-term ambition is to recover our revenue growth to market norms and get our EBITDA rate in line with the top 30 medtech companies in the world, all driven by our Transformational Initiatives. We are going to focus on higher growth and higher margin segments to do this. We will grow this margin as we deliver our operational excellence programme. We will also be able to fund our growth through other transformational initiatives. Together these work streams will drive more margin expansion, leading to EBITDA growth ahead of revenue growth. Thank you. Now we are happy to take your questions.

Q&A

Amy Walker (Peel Hunt): I have a few questions if I can please. Firstly, could you talk a bit more about the regions that you feel you need to exit? Is the issue here cost to serve or is it just that there was too strong a competitive dynamic in those areas? Why has it taken so long to identify this need? Has something changed?

Second question in the same vein, the very long tail on your products it is a bit surprising that it has taken a long time it seems to identify that 95% of the revenue is from 20% of the product base. Has that changed over time? Why has that arisen?

Then on R&D it seems like you are calling for a step-up here and more innovation. You have quite a lot of new launches since IPO and those were expected to offset pricing headwinds. What has really been the insufficiency with your effort so far? Was it that the quality and differentiation of the products themselves was not good enough? The commercial execution on the launches? I think you mentioned insufficiency ex-US of Avelle™ launch. Maybe you could give some more details on what that really means. I guess what I am getting at is how can you have confidence that throwing more R&D dollars at this is going to drive better growth medium-term? It feels like we have heard this from ConvaTec before. Is there a right percentage for that R&D as a percentage of sales? Is that how you think of it? I will leave it there for now, thanks.

Rick Anderson: Let us see if we can unpack that a little bit and between Frank and I we will do our best to answer that for you. First of all on the region question about whether or not we are going to exit certain regions, no decision has been made yet about which regions we will service differently. This is more about us putting more firepower on the target. In other words, where we have markets that are more attractive in terms of pricing, where our premium products can be adopted faster, we want to put more resources in those markets. That does not mean completely exiting markets. It means servicing those markets differently. It goes to your second question about why. It is driven by our desire to maximise the value of our premium brands.

On the SKU rationalisation this is a big, complex business and I think complexity is the enemy of great execution. We have issued associated with being able to service our customers appropriately. This is really about focus, how we are going to focus our business on the customers that matter, the SKUs that matter and being able to make sure that we can service those in a better way. In every portfolio in medtech it at some point needs pruning and we are going to go through that pruning process. Frank and I have been through every franchise, every product line, every SKU and done that associated with every geography to understand how we service our current customers. Where we have delighted customers and where we have failed to meet their expectations. Going through that process has been very illuminating for the Executive team. That is going to be ongoing as well in terms of SKUs.

On R&D and the quality of our launches we have been investing in R&D some might say lighter than our competitors have been. However, I am actually a little bit less concerned about what we have invested in terms of how spread we have been. To me this is about focusing more firepower on the targets in terms of the product areas that we think we can move the needle with more in the short-term. That is an execution as it relates to R&D. We do want to increase R&D investment. We want to do that in a very, very focused way, both in terms of products, geographies and the type of products we bring to the marketplace.

Then lastly your question was about confidence and why would it be different. In my mind the Executive Committee of the company has been focused since October. We have been working to figure out and now we have a great line of sight to how to improve our execution. The charter that Frank and I have taken in driving down in our organisation is less is more here. For us that has given me great confidence that I have not seen anything that would tell me that this business is not worthy of investment. We are in great markets that are growing and structurally sound. We have great brands and great products within those brands. We just need to execute better. For me that gives me the confidence to be able to say that.

Frank Schulkes: You said just throwing more money at it. We clearly are not going to do that just like that. I think a very important piece here is that through the transformation we are going to focus a lot on indeed investments that matter but also fixing processes to get much more disciplined execution. That is also true for our new product introduction as well as our launch process. That is very key that we are going to improve the process around that, improve the discipline and at the same time get a much more focused R&D portfolio so the dollars that we put in we will get higher returns.

Amy Walker: What I heard from both of you there was the word focus about ten times so the new strategy is all about you have been too broadly scattershooting effort and investments and what is changing now is a much more honed and much more, to use the word again, focused approach.

Frank Schulkes: Yes, and you saw that again in 2018, to give you an example. We had increased R&D cost because of investments in CCC and Ostomy but we also wrote-down some projects because we went through the massive portfolio and really said, 'These type of side projects they do not matter.' They take management attention, research attention, they take dollars. Therefore we said, 'We are going to cut off those tails.' That is why we took some write-offs.

Michael Jungling (Morgan Stanley): I have three questions, please. Firstly, a question about the Board. I suspect the Board has reviewed in the past the various restructuring programmes and I am trying to understand what is different about the process today than it was when you signed off the previous restructuring programmes.

Secondly, when it comes to catalyst when do you think investors will be able to see the first successes of your 'Pivot to Growth' programme and what do you think these successes will look like for the investor?

Then thirdly on the 2021 EBIT margin, on an adjusted basis what is a realistic number or range to go for? If I look at your press release there are a lot of numbers there that you can add up and subtract and you can come up with lots of different numbers. However, some sort of guidance on that 2021 number would be very helpful.

Frank Schulkes: 2021, as Rick said, we are aiming to be in the group of top 30 medtech companies from an EBIT rate point of view. The transformation programme is basically increasing the rate of success to get there by accelerating and also amplifying the programmes we highlighted. That is how we have to think about that. That is what we are going for in 2021 and beyond. In 2019 you could see that about $50 million in our number is one-off type cost. It is cost that his temporary. Think about the MDR and so on, the transformation cost. Therefore we took that out and overall the $150 million has a temporary character so in 2021 that type of cost will go away. We will then see the benefits, the returns of the investments we are doing in 2019 and 2020. Whether that is higher volume growth, higher margin in the revenue that we generate, better pricing discipline as well as cost-outing in cost. Those type of elements will get us into that territory of the top 30 medtech companies post-2021.

Rick Anderson: Let me answer the question on the Board restructuring and also the catalyst. As it relates to the Board the job that the Board gave me is a clear mandate, 'Go diagnose the problem. Why are we having execution misses? Is there something else going on in the business? Is there something structurally wrong? What has happened?' In the work that Frank and I have done over the last three or four months it is clear there is no structural issues here. Our markets are terrific. They are growing consistently. They are healthy. The fundamentals are there. The issues for ConvaTec in the last couple of years have all be around execution. There have been puts and takes, good and bad associated with that as well. That is the first thing, what they asked me to do. The second thing was that, as you define that you have seen the plans that we have laid out today for how we are going to improve that. That is a very focused programme as well. Those are the 'Pivot to Growth' principles. More importantly it also sets up the new CEO on their entry that we have got execution on path which allows them the freedom to think more broadly about the strategy for the company as well. My mandate has really been about execution focus, how we are going to improve that.

To your second question as it relates to catalyst, it is pretty clear for us that the sort of catalysts you should think about. We are going to put more firepower on the targets, specifically in the commercial excellence work stream coming out of Transformational Initiative, associated with US Wound Care. Our APAC expansion, our global catheter launch, our Ostomy product investments we are making for next generation products and then fifth is our ID expansion outside of diabetes and how we are going to expand our product portfolio. All of those will be measurable in terms of what we are going to be doing over the next couple of years. Those investments can be driven that way.

Michael Jungling: Can I quickly follow-up on my first question about the process the Board has pursued this time versus previous restructuring programmes. I am not quite clear what is different. I had suspect that you also had reviewed previously the restructuring programme but it did not work out. What are you doing to ensure that this is going to work this time? Is it the fact that you personally, a Board member is doing the investigation, kicking the tyres? Is that what is different compared to the previous programme?

Rick Anderson: I would like to take full credit for it but the entire Board has been involved in this analysis. Frank and I have spent a tonne of time with our Board evaluating what has been different from what we have seen before and where it has been. There has not been a problem with our strategy and the programmes that we have developed are well thought out. It is how we have implemented and executed against that. Did we have the right capabilities? Did we have the right people with the right sort of experience in the right roles to be able to do that? Part of our diagnostic that we did allowed us to have a different outcome, look at that. We have already made the moves and started to put the right people in the right spots. Donal talked about the sort of capability we have built in supply chain, which has been a difficult area for us. Doubling the number of green belts and black belts, we brought in the organisation that drives up execution in terms of capability. That is one of the major takeaways from the diagnostic we did.

Ian Douglas-Pennant (UBS): I think in one of your pre-IPO annual reports you had a qualified audited opinion and then Frank when you turned up one of the first things you did was started to invest very heavily in management reporting structures. Do you have the basic infrastructure in place now to allow these investments to be spent efficiently and deliver efficiency? Or do you still think there is work to be done at the core level?

Secondly a related question, how comfortable are you that these investments you are making to reduce cost will not have an impact on revenues as they did last time that you tried to reduce cost? How do you control for that risk?

A third question on a different tack, what gives you the confidence that you can correct the issues in the Wound Care space? It seems to me that the UK market has structurally changed, that you have significant single product risk. It seems to me you just need to create an entire new business effectively.

Frank Schulkes: Let me start on the information. As you know, we have developed a business intelligence strategy that was not there before, to really get data warehousing capability, dashboarding capability, reporting capability and one version of the truth, where all the information is centralised and very consistently centralised. We are in wave two of that programme now. We have visibility of sales to gross margin and we are in the middle of wave two which basically will add everything related to cost whether it is on the purchasing side as well as on the OPEX side. On top of that, and Donal can talk about it as well, we are implementing a very detailed project management tool in GMSC to track all of the programmes that Donal talked about to make sure that they are well-defined. If they are business plans, that we push them through the tollgates and we in the end get the results in the bottom line. I think we are much better-equipped now than we were a year or two years ago to see actual results and get the level of granularity we need.

Rick Anderson: First of all, broader picture if we are able to fix the US Wound Care problem in the short-term to a large degree we fix our Wound franchise. Why that gives me some confidence is we are in the middle of product launches. We are launching three really terrific products in the US marketplace. George Poole has already put firepower on the target there. We are talking about reps, specialised people, targeted to the highest volume customers, end user demand customers. That gives us some comfort as that plan starts to roll out.

In the UK our legacy product brand we are the market share leader there with greater than 50% of the market. We have the most to lose in that marketplace as they continue to ratchet down pricing in the space. That requires us as the market leader to go to work with the UK government and work with the Health Trusts here to go to market differently. We are doing that. We have had detailed discussions about different ways we can do business, different patient-facing protocols about the way to treat patients better in Advanced Wound Care. We are going to continue that and try to figure out ways that we can serve the UK market in a different way.

Frank Schulkes: Your second question, perhaps I will start with that on the investment impact on revenues. A lot of the investments are going to be focused on in fact enhancing revenue and Rick has been clear about where we are going to invest on the top line with US Wound, catheter, invest in APAC, in the ID business as well as in the platform for Ostomy Care. Last time indeed where there was a big investment programme on operations there was a very big disruption of revenue that we have clearly felt and we still feel. However, this was about moving 30 pieces of equipment and big production lines from Greensboro to Haina. In the programme that we are having over the next three years we do not have anything close to that. It is a very different programme and much lower risk from that point of view. On top of that Rick talked about simplification and a piece of this simplification is, for example, this SKU rationalisation. That will probably have some impact on revenue but all for the right reasons because we are going to move out of SKUs where we do not earn a lot of money. In fact one of the programmes in the past that was executed well was the CCC MIP programme where we have taken out SKUs that did not make any income and we have seen some very significant margin rate improvements.

Hassan Al-Wakeel (Barclays): I have got three questions please. Thank you for the extensive strategic update. The question that investors have is, why now? You noted that this prepares the new CEO but I would love to get your thoughts on the thought process behind why you have made this announcement and talked through this today ahead of recruiting a permanent CEO and why this does not reduce their flexibility strategically?

Secondly, you mentioned that new patient capture was slightly lower in the US. Could you please comment on the delta between the NPC and the installed base share and when you expect this to bottom or indeed converge?

Thirdly, on a sustainable basis post all of these investments what kind of revenue growth do you need to keep your margins flat and when do you expect to be able to start accelerating margin expansion on an underlying basis? Thank you.

Rick Anderson: The question was why move now. First of all, the work that we have done does not inhibit the new CEO in any way. We basically completed a detailed diagnostic that any CEO upon their arrival would do. What is the business, where is it really sitting, a diagnostic of the issues etc.? My focus has been and will continue to be to generate benefit of the short-term execution focus that we have at leadership team. That is a task the Board set for me. Without making any of the big strategic calls, pruning the portfolio, etc. but having all the data. All that stuff is completed. We have been blessed by the fact that this business is a terrific business. It has really had some execution issues. It leads into the question about what is the status of our CEO. We have a great shortlist of candidates and the Board has been aggressive about working through our process there. None of the work that I have done or the Executive Committee has done will inhibit that CEO in any way.

Frank Schulkes: On the NPC, indeed we have seen during our whole back order period a pretty resilient NPC but it has come down. At this moment it is below our market share. Of course a back order issue is the largest impact of that and there is a secondary impact as well because you have to imagine that the salesforce in a back order position is very much focused on trying to resolve back orders with customers and patients. They are not therefore focused on generating new business. That is behind us now so there is much more now focus on new business. On top of that with George coming into the Americas we also, as you know, have a new President for Ostomy Care. To a certain extent there are similarities with Wound, refining the strategy. George is already at this moment making changes to the Ostomy salesforce so we expect that this decline in NPC will in fact be stopped and will closer to our overall market share. I cannot give you the timeframe. George just started and is making already waves but I cannot give you at this moment a timeframe. Typically Ostomy, as you know, is moving at glacial speeds.

You have to of course look at basically keeping everything else the same, ceteris paribus type analysis. There is always inflation in the business. Think about, for instance, labour inflation in the plants as well as in opex, which you would have to cover with volume leverage that you get on the bottom line. I would say you probably have to think about a 200 basis points type growth rate to cover that but that is pure the inflationary piece. Of course, if there are other dynamics in the business you have got to go beyond that but in the end that is how I would answer that. Does that help?

Paul Cuddon (Numis): Three questions, if I may? Could you help me with the US performance in Q3 and Q4 excluding the Infusion Device business? It has clearly been your strongest performing franchise on an organic basis for some time now. Help me take out Infusion Devices for those two quarters, which is H2.

Secondly, the home distribution strategy has been a great success in the US. You have now got a product coming into Europe so how much distribution power do you have in Europe to make that similar level of success?

Finally on the CAPEX side and cost-out in fact, if you could give us a CAPEX number for this year. Also, you need to move quite a few sensors around to save $80 million so perhaps if you can flesh out some more elements of perhaps footprint consolidation, bigger ticket savings that you can out of manufacturing, that would be great. Then any thoughts on getting net debt down to 2.0x. We have previously discussed disposals. Thank you.

Frank Schulkes: On the US business I think we have been very clear since October but also Rick has talked about that. If you take the ID business out the US business specifically in Wound and Ostomy has been very much underperforming. In Wound we have seen a decline which was driven by our legacy business coming down. Before the Haina issues we had a very strong growth in surgical cover dressings and that product line of course was hit by the Haina issues. We have talked about it through 2018. The plan was to get surgical cover dressings back to at least a growth rate, not a double-digit big growth rate that we had for instance in 2016 but a growth rate. That has just not happened. During the Haina supply issues first of all competition has moved in, taking share of that business. At the same time we have also seen some new technologies come in, for instance, a glue technology from J&J. On top of that disposable NPWT, we did not have Avelle™ in the market. If you look ahead I think we are looking at a very different situation here. We will have a very powerful combination of products in the market. We will have the Ag Advantage which is the anti-biofilm product, combined with our disposable NPWT Avelle™ product, combined with surgical cover dressings. On top of that George Poole, as I said, came in together with David. They have refined strategy and they are basically creating a much more specialised salesforce focused on disease state. Think about chronic wounds, think about surgical wounds. In combination with a refined strategy plus a better portfolio of products, and on top of that, which was the biggest issue in the US, much better execution we believe this will turn around.

The second is Ostomy. It is in line with what I mentioned before. We have had a lot of patient revenue losses, also in the US. That hurt our business very much so I think I already answered that question in one of the prior questions.

Rick Anderson: First of all we have a world-class capability in HDG and that capability is clearly globally scalable. We want to take full advantage of that. Coupled with that we have a very disruptive new catheter being launched in Europe right now. The question is whether we build with our global capability or we buy and we have not made that decision yet. However, both are great opportunities for us, a great product and a great global capability that we can bring in. We can scale globally.

Frank Schulkes: CAPEX in 2018 was somewhat lower than 2017 so there is some overflow into 2019 but on top of that we talked about new products that are coming into the market and we are going to do some pretty significant investments to support the success of the Ulysses product, which is the new infusion set. There is going to be very, very heavy investment. We are going to add great automated capacity in Denmark so in fact be able to fulfil that amount. Our customers are really jumping up and down to get more. The next one is, as you know, we have our next gen CCC product in patients and getting ready for commercial launch. Also there we are investing very heavily in 2019 to be able to fulfil the amount over the next several years. The next gen ramp-up will be a lot slower than the Ulysses one. The Ulysses is pretty steep and will cause by the way a pretty negative mix impact temporarily but in 2019. You have to think in CAPEX terms probably around the $100 million mark.

Donal Balfe: I can give you a general idea on the manufacturing savings. Those were just two examples that I presented there. We have a good cadence of projects at the moment. Where you make savings in manufacturing is where we buy stuff, what geography we buy it from, what company we buy it from. Shipping modes, how we ship product out of the plant, what height are the pallets and what density can we get stuff on the pallets. If we are sterilising that if we can put more on the pallet that will give us savings. Overall plant efficiencies and yields in the manufacturing process are quite significant. If we are cutting circle filters out of a long tape, how many can we cut out, the density of that. Cavitation and moulds, when we are moulding parts the number of cavitations that one shot will produce, one part or one shot of the moulding machine will produce ten parts. That gives us a lot of savings if we increase cavitation. The level of automation we have in the production process. Can we automate some processes in our high cost manufacture locations?

I spoke about value engineering. When you take a product, strip it down, look at competitors' products, look at the attributes and the features of that product and see if we are getting paid for those features. If not, de-feature the product a bit. That gives us savings. Our overall packaging process gives us savings as well. Can we reduce the weight of the paper, the weight of the packing and get savings from that? All of the above, shipping modes, do we expedite stock, do we air freight it? Where we have our distribution centres. Do we need them in all those places and can we get stuff to customers with the same level of efficiency maybe with less distribution centres and less stock? We are looking at quite a wide range and we have gone through an analysis. I have quite a detailed project list to back up these numbers. It is not an aspirational number. It is an actual number that we have worked through and I can get that.

Frank Schulkes: Debt, we de-levered 30 basis points this year. With the investments in transformation I think it will not come down in the next two years at the same sort of decline as we have seen in 2018. However, then in 2021 with returns kicking in, higher revenue growth, higher margin-type revenue growth, cost-out and cost of goods sold we will start to see the shift in OPEX. It is going to then steeply come down. You can almost say that perhaps it is slowing down over the next two years but then it will pick up very fast. I do not think that the investments we are making in the transformation, given the returns we are seeing that over the medium-to-long-term it will impact our ability to drive down leverage. It will just have a little bit of a different shape.

Veronica Dubajova (Goldman Sachs): I have three please. My first one is on the medium-term margin trajectory. I am curious about two things. One, when do margins trough in Europe? Is this a 2020 or 2021 event? Then as you talk about having a margin expectation in the medium-term that is comparable to the top 30 global medical device companies, I have not run the math before I got here but I suspect that is a mid-20s margin. Is that your expectation that is where you will be on a five-year basis? I guess it seems meaningfully lower than the margin you had in mind for the business at the time of the IPO. Maybe walk us through what has changed.

My second question is more of a financial or accounting question but I am surprised to see you include some of those one-time costs in the adjusted EBIT margin for this year and going forward. Is there a new philosophy in how you think about what the adjusted EBIT margin corresponds to? Or is there a risk that these costs continue beyond the 2021 timeframe and that is how we should be interpreting that decision?

My last question, if I look at the priorities for investments that you have outlined, Wound Care, APAC and catheter, the thing that is notably absent from that is Ostomy. Ostomy obviously was the big transformation change when you came to market back in 2016. Has your view changed on what you can do with the Ostomy business and has your assessment of the potential returns that you see there changed as well? Thank you.

Frank Schulkes: In 2019 transformation investments over the 2019-2021 timeframe is $150 million and I want to make it clear to everybody, those are not costs that are going to stay. This is the cumulative investment we are going to do in those 2.5-3 years that will disappear.

Then we also said by 2021 there will be a $50 million per annum going concern cost largely focused on commercial excellence in the five areas that we mentioned. On top of that we have another set of costs that are temporary and that is MDR. We expect MDR to cost us about $35 million to basically be compliant with MDR over the next 2.5 years. The estimate is that $10-12 million will fall into 2019, then it will probably spike up in 2020 and there will be a tail in 2021. That is our current modelling. If you look at the 2019 numbers and you take out the non-recurring elements of transformation and MDR we have been clear that estimate is around 21.0% to 22.5%. Then if you look at where we are at the end of 2019 in transformation it is about 35% done. There is in 2020 probably a higher amount of non-recurring type investment related to transformation plus we will see also a higher investment in MDR in 2020. While we also start to see of course some of the returns of the programmes but net/net because MDR is so big and the transformation investment is so big in 2020. Our current assumption is that 2020 will be the bottom, all-in.

Rick Anderson: First of all, Ostomy as you know, is a very good market. It is a very good market. It is an annuity business and we are investing it. One of the five areas of investment is our Ostomy next generation platform. We are heavily investing to bring that to market. The two questions we have about our Ostomy franchises. One, how fast can we get that new product platform in the marketplace? Which is really important to us internally to execute. Then two, what is the future influence of home care as it impacts new patient capture? Studying those and understanding that will impact the way we go to market. We are working on both of those things. We will update you as we go forward it is important to to us to understand those two dynamics, how fast we get our new product in. If there is any changes in our thinking, it is are we asking the right questions?

Frank Schulkes: On the one-time cost, we at this moment want to give full transparency of how much we are going to invest and we have not had the detailed discussion with the Audit Committee so we do not have approval from the Audit Committee where this is going to land. If it is going to be in adjusted EBIT or not. For us the key thing is to provide full transparency and I think when we come out with our mid-year results we will have more insight in where some of these costs are going to land. We will be able to provide you with that as well.

Then on the medtech device company we are not going to commit here to one number but medtech device companies are a range and that is how we have to think about it. We are going to fit in that top 30 range of medtech companies. I am not going to comment on specifics but we are going to be in the range of the top 30 medtech companies.

Chris Gretler (Credit Suisse): Thanks a lot. This additional cost of $50 million by 2021 we basically balance against an $80 million in benefit by 2021 and then $120 million benefits by 2023 also. That would give us the net cost savings. Is this the right way to think or is there extra cost that would come later on that will offset some of this benefit?

Frank Schulkes: I think I understood your question. This is around the cost-out programme, the investment we are making of $50 million over the timeframe 2019-2021 and then the per annum cost savings by the end of 2021 of $80 million. To get to $120 million two years later there is going to be a little bit more CAPEX investment needed but the majority of the costs are going to be covered in the first three years. Second, what we are talking about here is costs that are going to be taken out in supply chain and in operations. On top of that of course and we have not talked about it in detail today, we have opportunities to take cost out of G&A. Think about for instance the business services transformation. We will update you at a later stage. There are more cost-out opportunities beyond the operational side that we laid out today.

John Crosse: The gist of the question was if you have the $50 million of ongoing cost by 2021 against $80 million of gross cost savings should you think of a net $30 million benefit or are there other offsets?

Frank Schulkes: Okay, but the $50 million of ongoing cost is very different than what we are talking about here. The $80 million is cost-out in largely cost of goods sold and some supply chain which will hit OPEX. The $50 million of recurring cost is all related to driving higher top line growth at higher margin rates with more pricing discipline in the areas that Rick said: US Wound, the catheter penetration acceleration, investments in APAC and China, ID investments outside of diabetes although that is less commercial-related. That is how we have to think about that. The $50 million ongoing will in fact drive a lot of margin through accelerating the top line and getting higher margin growth. Those are two different things in the end. They will end up in the same P&L but they will basically be complementary.

Chris Gretler: I am interested in the net of it, the $30 million but I understand they are different levels. Then I am quite impressed. The $120 million savings on a cost base of $1.4 billion is a very substantial saving. I am a bit surprised that we have not been able to exploit that given these lengthy period under private equity ownership, the last programme and so on. We will watch with interest of course.

Yi-Dan Wang (Deutsche Bank): To follow up on Chris's question, could I understand from Frank that you are saying that the $50 million of OPEX investment should give us faster top line and with that margin expansion? We should consider those benefits on top of the $80-100 million of cost-out?

Frank Schulkes: That is correct. You saw the four work streams that Rick talked about. One of those work streams is the cost-out which is largely cost-out in the costs of goods sold area, some in supply chain and some in indirects. There is another work stream which is also cost-out which is business services transformation. We have not talked about that today but there is an element there. Then the commercial excellence work stream is not about cost-out. It is about higher growth in higher margin areas with more pricing discipline. A lot of the $50 million that we will see as ongoing cost will related to people and tools that are going to drive that, including R&D. We have not quantified that but of course it is an important element to get us to the EBIT rates that we talk about in the range of the top 30 medtech companies. The programmes that we have identified have a payback between two and three years' time.

Yi-Dan Wang: If I could take a slightly longer-term view then, looking at just the $120 million by 2023 the $50 million of OPEX investments we should see actually more than a $50 million of return on that by 2023. Essentially we are looking at maybe as much as $170-200 million of net benefit by 2023.

Frank Schulkes: As I said, there will be a great payback and therefore a great return. We have not at this moment quantified that in terms of dollars. If we get to mid-year and next year we will update you on the different work streams and I think we can be a little bit more precise. The benefits are going to be but the key thing is investment in commercial excellence with a payback of 2-3 years. You earn your money back in 2-3 years and then it is all extra.

Yi-Dan Wang: Thank you. Then a quick question to Rick. Very surprised at the $50 million of investments to drive growth and margin improvement because the amount is actually very small relative to what your competitors have placed. Is the actual amount related to how good the infrastructure within ConvaTec is and therefore how productively you can actually invest? Or is $50 million what you think the company needs and whatever your competitors have placed is really not going to be that productive and is not really going to impact you?

Then a couple of quick questions for Frank. If you could quantify the organic growth we should expect by division relative to the Group organic sales growth guidance you have given, that would be helpful. Then a comment on financials and the tax rate, more important about the tax we were given that that has picked up a lot faster than what I have been modelling. Thank you.

Rick Anderson: The way we think about the $50 million of commercial investments is really two parts. One is we are making incremental investments. We called that out today to see it. We are also redirecting investments we are already making because we think we have been spread way too thin against the global marketplace. We could more firepower within our current invested capital into those markets to get a higher return. We are extracting cost out of own organisation either through simplification, targeting and all the things we are doing. We are paying for that through the efficiency programmes that Frank and Donal have talked about. That is the first way to think about it.

The second thing is we are doing competitive benchmarking by market to see how well we are matched up man-for-man, person-to-person in markets specifically targeted. That is the process that we are going through right now.

Frank Schulkes: Let me give you directionally how you have to think about organic growth in 2019. We expect that the Wound business will come back to growth because 0.2% was not really regarded as growth and we have been very clear about that being very disappointing. The drivers of that are, as I mentioned before, we will have in the biggest markets a great combination of products available now with Avelle™ in the US and the anti-biofilm product in the US, combined with surgical cover dressings. We also see refined strategy and better execution with new leadership. We see pretty good in-market growth rate for our products in a lot of the European markets but the UK continues to be an issue for us. The UK market is not great but we basically have lost some share in that market. On top of that we had, and that will continue in Q1, some de-stocking with a very big distributor so that will hurt a little bit in the UK specifically. If you add it all up with foam continuing to grow and with the trio of products I just mentioned, an important factor to help us come back to growth, we think the wound business will have a decent year.

Second, Ostomy was negative. We expect it to improve and of course the patient revenue losses have annualised. However, there will be an impact of the reduction in NPC and I talked about that. We are working to fix that but that will take some time. During the whole backorder situation and period we also lost some ground in the retail channel in the US. Our expectation is I would say flat to very, very, very modest growth in Ostomy. CCC will have a good year. They had a good year in 2018 even with the recall. We will not have that headwind so CCC should do well.

Then ID will return to growth. We clearly see that the big customer inventory correction was a Q4 phenomenon. I have been very clear about that in October. The Animas business has exited the market and that will be somewhat disruptive because some of the sales will go to patch pump. The majority of the sales will go to the big players but it depends where it goes. Thirdly, there is Animas inventory in the channel and we do not know exactly how the recipients of those customers are going to deal with that. We expect therefore that ID will grow but be low, historical market rates of 4%.

I think the tax rate trajectory is very much in line with what I told you last year. The book rate was 15.7% in 2018. It will inch up to 16.5%. The cash rate was I think 12.2% and will go to about 13% so will also go up about 80 basis points. The reason for that is very simple. In June of 2019 we will not have the Swiss tax rate concession anymore. That will expire and that tax rate will in fact go up. That is the driver of this increase year-over-year. Long-term very much the same, as I have said in August as well as in February. For the book rate we expect in 2023 that it will be high-teens, around 19% and that the cash rate will be around the 17% mark. The main driver of that is simply that we expect there will be some Swiss tax reform and that the Swiss tax rate will go up. You see a convergence of tax rates around the world.

Financial cost in terms of FX or interest? We have taken down our debt in 2018 so the overall outstanding debt is down. Of course I do not have a crystal ball what interest rates are going to do but we, as you know, are pretty well protected because two-thirds of our US debt has an interest swap. The average interest rate in 2018 was around the 3.25% mark. If that stays the same the interest cost should come slightly down.

Michael Jungling: I have two questions please. Firstly, on the new CEO search can you comment on how close you are to announcing that position but also whether you feel that the CEO needs to have medical device background?

Question number two is on this 'Pivot to Growth' programme. Can you comment on how your team got to these cost savings numbers? Were the external consultants used to provide a sanity check to make sure that these numbers are plausible, accurate and justifiable?

Rick Anderson: New CEO search we have a terrific shortlist of candidates and that is really a testament to the underlying quality of this business. The candidates that we have spent time with are world-class healthcare leaders. They have a variety of experience in the space so we are excited about what we have got and the Board is moving aggressively in that process. We will give you an update soon on where we are with the CEO search.

I am a medtech guy. I think what you have seen in terms of what we have laid out for you here could be applied to any business. It would be very helpful if you are a healthcare guy or gal. It also works if you have segmented markets, if you have lived through a transformation and if you have done the things that we are talking about. Our criteria for selection of CEOs has been against the backdrop of the plan that I have presented to you today. That skillset and capability has been the most important factor for us. Obviously medtech experience would be tremendous to have.

Frank Schulkes: On the 'Pivot to Growth' as you know the four work streams are owned by the ExCo members so they own the numbers. However, indeed we are still working very closely together with consultants to identify and verify the cost as well as the benefits and the timing of when those benefits will come in. This is a combined effort. In the end we own the numbers. We are accountable. We use for sure external expertise to help us identify and verify.

Kit Lee (Jefferies): Firstly, on your transformative programme I think Rick you mentioned a more decentralised structure. I am trying to understand what exactly will change because if I recall you do have the franchise presidents in place now. I am wondering what will change in terms of how you operate. What can you do to be more nimble or agile in how you go to market?

Then secondly on the Wound Care growth in UK, what was the underlying growth in the market excluding the distributor de-stocking that you mentioned? I am trying to understand the headwind there. Thank you.

Frank Schulkes: We do not comment on specific growth rates in market.

Rick Anderson: On the structure for a second, as you know, last year we announced that we moved the franchise structure. We went about the process of recruiting president-level talent and Stefan joined us latter part of the year. David joined us in November. For all intents and purposes we are just in that structure. We announced it but we had to recruit the sort of world-class talent. Here in Europe, as you know, the employment contract takes a bit of time for some people to transition from one job to the other. That is a timing issue, a phasing issue. One of the reasons why I like both the talent we have recruited in those roles and the way that Donal and the rest of our team has integrated, is we view those roles as the CEO of Advanced Wound Care, the CEO of Ostomy, the CEO of ID and the CEO of Catheters. We want to structure our business in the future where we will look at those folks from cradle to grave of how they manage the business. The work that we have done in the 'Pivot to Growth' work as well as the transformation work is anchored in that thinking, which gives us maximum optionality in the future. We still have a lot of work to do because we are growing into that structure but we have recruited the right leaders with the right capability and experience to execute that for us.

Frank Schulkes: Not only UK because I do not want you to go home completely empty-handed. I cannot give you the specifics but I can give you some of the dynamics. We have very high market shares in base hydro fibre and hydrocolloids. As I said before, we have lost some share there. If you lose share you basically grow below the market even without that adjustment for this de-stocking. On the de-stocking though, this will continue in Q1 and in fact the comp will be pretty tough for the UK because last year in Q1 that same customer was stocking up. There will be really a negative impact in Q1 in the UK. Beside that we are losing some share because of our very high market shares in base hydro fibre and the hydrocolloids. Some of the smaller players with me-too products have been nibbling at that market share. It is not massive but it has been declining.

Speaker: Going back to the $50 million cost savings you are highlighting you would reinvest in the business for growth. How much headroom is there in that number? Is it a budget? Is it a set of already outlined costs? If organic growth was not reaching the rate you wanted it to be would you be prepared to invest further in that number?

Frank Schulkes: The $50 million, as I said before, is largely commercial so a pretty sizeable piece of that will be in fact salesforce. However, it will be complemented by tools and further investment in CRM to make the salesforce more effective. If we do not see organic growth in certain areas then of course the first thing we will do is a diagnostic as to why that is. We are not going to just therefore throw more bodies at the problem and hope it will resolve itself. I think that is very much dependent on what the diagnostic is why we are getting the traction we need and do we perhaps need to redirect some of those resources in areas where we are getting traction and where we could in fact accelerate and amplify.

Rick Anderson: I would echo Frank's comments. I think the more important question is, are we prepared to redirect hard our resources into our biggest opportunities? One of the things we believe, as part of our diagnostic, is we are spread too thin. And our commercials spend, we want to increase where we are winning, we want to put more firepower on that target. To me it is not a question about whether we will invest more. It is a question of what do we need to invest and when once we find the pockets of excellence that we have seen. We have a set of targets that I have explained to you today.

John Crosse: That has been a bit of a longer session than usual but thank you very much for coming. We will draw it to a close there. Thank you.

[END OF TRANSCRIPT]