ConvaTec Q3 2019 Trading Update

Wednesday, 30th October 2019

Transcript produced by Global Lingo
London - 020 7870 7100
www.global-lingo.com

Opening Remarks

Karim Bitar

Chief Executive Officer, ConvaTec

Welcome

A warm welcome to everybody on the line on my behalf and on Frank Schulkes' behalf. We are both of us here sitting together in Reading at our headquarters and it is a beautiful sunny day. We are actually overlooking the Reading train station. We were just commenting on what a beautiful sight. I am really delighted to be here this morning in the capacity of Chief Executive of ConvaTec and I was hoping to focus on three key elements this morning. The first one was to give you a little bit of a feel or a sense of my background. Two was maybe to highlight to you what motivated me to join ConvaTec. What were some of the key reasons why I decided to go ahead and join ConvaTec? Then thirdly and lastly I thought I would try to give you a little bit of colour in terms of the Q3 results and what the meaning or implication is for us moving forward.

My Background

In terms of background, what I would say is I am delighted to be back into the healthcare industry. As several of you know, I spent a large portion of my career working with the Dow Chemical Company, Johnson & Johnson, Eli Lilly & Company and Genus. There is really a common theme with all four of those companies. The common theme consists of three points. The first point is that in all cases these are multinationals and so I have always thoroughly enjoyed working with global businesses. That is something that I truly value. The second theme with all of these companies is that they truly value innovation. They are very R&D-driven, very focused on intellectual property and that is something that I also truly value. Thirdly and lastly, I would say all these enterprises have always had a focus on people, respecting people, developing people, growing people and ultimately it is the individuals at the enterprise that frankly make the difference.

Why ConvaTec?

Very similarly when you think about ConvaTec, I really see all three elements at ConvaTec. A global company with the opportunity to be innovative and a company that truly wants to value its people and grow its people. If you then step back and say, 'Karim, what specifically motivated you to join ConvaTec?' I really would highlight three things. The first thing is that I have a real passion for patients, patient care and improving patient outcomes, as well as a real passion for innovation, for science and technology. Originally I actually studied in the sciences. I studied biochemistry. The second thing that I have a real passion for is mid-sized companies. I think a mid-sized company like ConvaTec is incredibly attractive because you are able to move very quickly, very rapidly and really have an impact in the marketplace. Having worked for smaller companies and very large companies, I must say that I find very attractive the idea of working with a mid-sized company.

Thirdly and lastly, when I assessed the situation at ConvaTec I had to basically assess the nature of the opportunity. How attractive was the opportunity? I looked at it through two different lenses. The first one was, how attractive were the end markets? Secondly, what was the relative competitive position of ConvaTec? I drew two conclusions. The first one was when looking at the end markets a lot of these end markets are obviously related to chronic diseases, related to things like diabetes, related to things like unfortunately having maybe colon cancer and therefore having to go ahead and have an ostomy or stoma treatment. When I started looking at that it became pretty clear that long-term structurally when one is trying to meet these unmet needs they're going to be there for quite some time. Structurally you are going to see and continue to see some solid and robust growth in that low single digit to mid-single digit range. To me overall I said when I look at the entire marketplace, 'Attractive end markets.'

The second thing I noticed was that the competitive position of ConvaTec's business was actually very mixed. What I mean by that is that there were some businesses in some geographies that frankly were performing very, very well and actually were robust. However, on the other hand, there also were some businesses and some geographies where performance could be significantly improved. You have a situation where the performance and competitive position is actually quite heterogeneous and in my mind that variance or heterogeneity, indicated or reflected significant opportunity for growth. I found that very attractive.

In summary I would say the passion for patients and innovation, the size of the company and frankly the heterogeneity to me said significant opportunity. Moving forward you might say, 'Karim, what are you going to really focus on?' I am going to focus on getting closer to patients, strengthening our innovation pipeline and then being absolutely relentless about execution excellence. At the end of the day, that is what fundamentally counts. That is what really makes the difference. It is being able to deliver and to execute. Hopefully you got a little bit of a sense of my background. You have had a little bit more of a feel for what were my motivators and what drove me to join ConvaTec.

Q3 Results

Then lastly in terms of our Q3 results, what I would say is that they were solid results but I think we need to put them in perspective. What I mean by that is that this is a small step. There is a lot of work to be carried out. There is a long journey ahead of us but we are determined to go ahead and pursue that journey. As we pursue that journey our focus is really on pivoting to sustainable and profitable growth. On that note, I am going to go ahead and pass the baton to Frank and Frank is going to try to give you a lot more detail and a lot more colour in regards to the solid results that we experienced in the third quarter of FY19.

Third Quarter Trading Update

Frank Schulkes

Chief Financial Officer, ConvaTec

ConvaTec Group

Thanks Karim and thanks everyone for joining us for the Q3 Trading Update. Let me take you through the numbers now. As Karim mentioned, it was a solid quarter with Group revenue of $463 million, increasing 2.4% on a reported basis. Taking out the impact of unfavourable FX, the organic growth was up 4.6% and it is important to note that the performance was helped by some tailwinds. Primarily, timing benefits and a weaker prior year comparator, which I will run you through. However, overall we were in line with our expectations for the quarter.

Advanced Wound Care

On a franchise basis, in Advanced Wound Care revenue of $147.5 million increased 3.6% on an organic basis in the quarter. A solid performance led by silver, in particular AQUACEL Ag+ and Foam. We achieved solid growth in several European markets and delivered a good performance in Latin America. We continued to focus on leveraging our specialised and expanded salesforce in the US during the quarter. Call rates in Q3 continued to rise as we on-boarded new starters. Our growth improved sequentially, largely due to timing benefits related to the phasing of orders primarily in China and the US. This was partially offset by the French reimbursement cover. Looking ahead to Q4, the Q3 timing benefits will partially reverse or will not happen again and we anticipate some headwinds due to likely changes in German silver reimbursement and, as we already flagged in August, a controlled distributor inventory reduction in APAC.

Ostomy Care

In Ostomy Care revenue of $131.7 million grew by 3% on an organic basis in the quarter. We delivered solid growth in some European markets and strong growth in Latin America, which benefitted from the timing of a tender in one of its bigger markets. Note that this growth is set against a weaker performance from Ostomy in 2018, within which Q3 was particularly low in dollar terms. For Q4 the controlled distributor inventory reduction in APAC I referred to a moment ago for Wound, will also impact Ostomy and we will see some planned SKU rationalisation beginning in the fourth quarter.

Continence & Critical Care

In Continence & Critical Care revenue of $150 million grew by 8% on an organic basis in the quarter, driven by a good performance from HDG and the impact of last year's packaging recall resulting in weak comparators. As a reminder, in Q3 of last year we experienced the negative impact from the packaging recall, which was about $3.5 million in revenue, as well as the last part of our CCC SKU rationalisation. Together giving a tailwind to overall franchise organic growth this quarter of about 370 basis points, and to overall Group organic growth of around 90 basis points.

Infusion Devices

In Infusion Devices revenue of $68.6 million increased 4.3% on an organic basis, driven by a good level of customer orders and also a weaker prior year comparator. We continue to expect full-year growth to be below historical average growth rates due to the Animas exit, as we have indicated before.

Transformation Initiative

The transformation initiative is in line with the expectation for the year that we discussed in August and the early progress has continued. We will provide an update when we report our 2019 full-year results.

Debt Refinancing

Last Thursday we were pleased to complete a refinancing of the company debt on more favourable terms. It has been replaced with a committed five-year $1.7 billion bank facility comprising of $1.5 billion of term debt and a $200 million revolving credit facility.

Outlook

Then in terms of outlook for the Group for the full-year of 2019, this is unchanged and as a reminder, we expect organic revenue growth of 1-2.5%, an adjusted EBIT margin of 18-20%, including spend associated with the transformation initiative and MDR. Excluding these costs adjusted EBIT margin is expected to be between 21% and 22.5%. Then finally, I am very much looking forward to working with Karim to help drive the business forward. With that, I am happy to take your questions.

Q&A

Amy Walker (Peel Hunt): Thanks very much for taking my questions. I have three. I will ask them individually, if I can. Karim, thank you very much for your opening remarks. You mentioned some common themes in ConvaTec with the other previous companies that you have worked at. Can you tell us what strikes you as different to your previous organisations or different perhaps to what you had expected and maybe elaborate a little bit on the geographies and businesses where you see the biggest opportunities for improvement currently?

Karim Bitar: What I would say, Amy, is that I see a lot of similarities in terms of the global nature. I do see similarities in terms of the opportunity to more aggressively drive the R&D agenda, the innovation agenda that is fundamental in the healthcare industry and in a medical device company. Obviously, whenever you are looking at it from a global vantage point you look at all the colleagues you are working with and it is always important to have a highly engaged group of colleagues that are motivated and really committed to making things happen.

In terms of the opportunity and where the variance is, I think it is a little premature for me to comment at this point. I am very much in the early phases of joining ConvaTec so it has been approximately a month. I am still counting working days, Amy, to give you a sense. I have had the pleasure to travel to many countries, whether that be in Europe or in North America and I will be visiting places in Asia and Latin America. I think it is premature at this point but I am comfortable saying that I am observing a fair amount of variance and I am also comfortable in saying that the employees at ConvaTec have a positive attitude. It is a can-do attitude. It is a desire to improve and frankly for Frank and I, I think that is encouraging. I think that that bodes well.

Amy Walker: Okay, thanks and a quick follow. Karim, it mentions in the press release that you are planning to update the market going forward. Are you able to say at this point, do you think you will give a more detailed outlook or feedback or strategy as early as the fourth quarter results next year? Or are the plans to do something separate to that, just so we know how to tune our expectations?

Karim Bitar: I think really the plan that Frank and I have is to share with you the performance in February for all of FY19 and at that point it would be appropriate for Frank and I to start sharing with you some initial thoughts and preliminary views as to what is the future direction of travel going to be. One thing which is important to highlight in terms of future direction of travel is that in regards to the transformation initiative Frank and I are incredibly committed to that initiative. We believe that that is fundamental to the success of ConvaTec and so during the course of my on-boarding I did have the opportunity to dialogue with Rick Anderson, the previous Executive Chairman and CEO. Obviously not in a decision-making capacity but was kept abreast of some of those developments. I am delighted that that work has been carried out and that we have started to try to put interventions in place to improve commercial excellence, to improve our operational excellence and to improve business services. What I would say in terms of direction of travel is we will try to provide you with a more preliminary view and a more broad view in February. However, one thing I do want to highlight is that the commitment to the transformation initiative is very, very strong and you will absolutely see both Frank and I continue to work with the leadership team and the employees across ConvaTec to ensure that we execute and implement those initiatives and start to see the benefits in 2020 and 2021.

Amy Walker: Great, thank you. I will not try to push you on guidance for 2020 and 2021 but one last question if I could and then I will drop back into the queue. On Continence & Critical Care, Frank, this might be one for you. I think you mentioned or it was mentioned previously at the H1 results that you were taking a very deliberate soft approach to launching your new catheters in Europe. I did not see any reference to that in the release today. Is that process underway now and can you give us some colour on how the product is being received and what your experience so far is telling you about the outlook for the full launch and the timing of that, please?

Frank Schulkes: Let me give you a little bit of colour there. We have the product in patients and we have received very favourable feedback from those patients. At this moment the plan is to start marketing activity in early 2020 before a full launch later in the year.

Amy Walker: That is great, thank you. I will drop back into the queue and let someone else have a go. Thanks a lot.

Michael Jüngling (Morgan Stanley): Thank you and good morning all. I have three questions, please. Firstly for Karim, if I look at the press release and the comments that you have made on page one you make reference to the need of getting closer to the patient and strengthening the innovation pipeline. Can you comment on what you intend to do and how you intend to finance these comments? Question number two, I also noticed that there was no reference to the need for perhaps ConvaTec to be more involved in the emerging markets where your exposure is less than your competitors. Karim, how are you thinking about the emerging markets and the need to invest? Then finally, if I look at your guidance but if I look at Q4 organic growth and you adjust for comparisons, you could theoretically even if you adjust for some inventory destocking for maybe a 5%, 6% or even 7% organic sales growth number. Can you comment on why that would be an unrealistic type number for the fourth quarter organic sales growth? Thank you.

Karim Bitar: Let us take these three sales questions in sequence. I will probably ask Frank her to maybe help me out with question number three, if that is okay, Frank, on Q4 sales. I think the idea that you want to get closer to patients is fundamentally the whole concept that we need to be very marketplace oriented and very, very customer-centric. It is critical that we realise that first and foremost we are meeting unmet needs of patients. Now, obviously we are working with caregivers and these can be physicians and nurses, etc. but I think it is imperative that as an enterprise that that focus be first and foremost on patients. It is the reason we exist, frankly. Innovation for a med tech company, a medical solutions company like ours, it is fundamental that that innovation capability be built and deliver continuous improvement. In terms of how to finance that, we are going to work through that and hopefully we will be able to give you more insight in February and throughout 2020. However, obviously the onus on us is to look at the current makeup of how we are investing and try to go ahead and ensure that this one key area, which is the innovation area, is appropriately financed.

In terms of emerging markets what I would say is that clearly emerging markets are a significant opportunity and very similar to the whole area of innovation, it is something that we are actively assessing and exploring. However, it is obvious to us that that is a significant opportunity and so we need to assess and really analyse how to best seize that opportunity. Again, the plan would be next year to provide you with a little bit more colour and specificity as to how we would do that. In regards to Q4 sales I will pass the baton onto Frank.

Frank Schulkes: Hi, Michael. So, based on looking at a number from last year which implied a very easy comp. However, I think what is important to note here is that that easy comp was 100% driven by the ID pattern and as you know, ID is extremely lumpy. You have to look at last year excluding ID and if you take ID out then basically we were about flat so not a tough comp but not a particularly easy comp. Then you look at Q3 where the 4.6% was clearly helped by some tailwinds. We explained those. Some of those will reverse or not happen again. Then we will of course have the APAC destocking activity that we highlighted in August already. We have uncertainty around the silver performance in Germany and then we will start with some SKU rationalisation activity in Q4 as well. Therefore, if you look at Q4 and you come to a conclusion 5-7% I think that is for sure not going to happen based on the reasons I just explained.

Michael Jüngling: Great. I have a follow-up question on strategy. I am trying to understand how you are thinking about the mid-term. How do you feel about maybe making a material sacrifice on margin with the upside being a faster organic sales growth earlier? Is that something that you are considering? Is this the way that you are thinking about how to restructure ConvaTec and improve performance? Or are you more of an individual who says, 'I am happy to take a three-year view' and it is steady as she goes?

Karim Bitar: I think it is really premature at this point to say what pathway we are going to take. The reality is that it is clear to us that we need to significantly enhance the innovation capability and so we need to look at all different options, assess all the pros and cons and then decide what the path forward is. However, I would say that we are very much in that diagnostic or assessment mode right now and so Frank and I are looking at that carefully. Hopefully in due time, particularly in 2020, we will be able to provide you with more insight on that.

Michael Jüngling: Great, thank you kindly.

Veronika Dubajova (Goldman Sachs): Good morning and thank you for taking my questions. I have two, one for Karim, one for Frank, on very similar topics to what we have discussed. Maybe I will start with the financials. Frank, it would be great to get your thoughts on where in the revenue growth guidance range you think is realistic to be thinking about for the full year. If I look at the low end of the range it would imply effectively negative revenue growth in Q4. I am surprised that you still kept that. Is there anything else that you see on the horizon that worries you? If you can give us some guidance on that, that would be great. Then a bigger picture question for Karim and great to meet you on the phone. You have mentioned innovation as something that is incredibly important. Do you think the organisation as you look at it today is the right size and shape to drive that innovation at ConvaTec? If not, one month in I know it might be premature but what are the big opportunities or changes you are contemplating there? Thank you.

Frank Schulkes: Morning, Veronika. We are not guiding towards any space within the range that we have given. The range is 1-2.5% for the full year. Year-to-date we are at 1.5% and I think we have been clear on some of the dynamics in Q3 that have helped us, the tailwinds and then some of the headwinds that we are going to experience in the fourth quarter. That is where I want to leave it.

Karim Bitar: Veronika, in terms of the innovation agenda really two thoughts. One bias which I will share with you is I am less focused on size. I have often been asked in a variety of capacities at a variety of enterprises, 'Do you need to be of a certain size?' and 'Do you believe in percentage of sales of investment in R&D?' This is a common thematic. My simple view is to have a really strong innovation capability it is all about the people. Ultimately, the equipment and lab spaces etc. they are pretty fungible across competitors. The reality is it is making sure that you build that innovation capability. I think that the reality is that there is an opportunity here. As I was saying, we have got a heterogeneous situation that on the innovation side we have had some good innovation at ConvaTec historically. However, I think it is fair to say that we can do more, that we can improve and we can strengthen this dimension. It is really for Frank and I to figure out exactly how we are going to build this capability and how we are going to shape it in the future. However, it is something that is top of mind.

Veronika Dubajova: Great and if I can quickly follow up. Frank, I appreciate you might not want to guide for a specific number within the range but just curious, can you see a scenario where you would end up at the low end for the full year?

Frank Schulkes: Again, we are not commenting on that, Veronika.

Veronika Dubajova: Understood, had to try. Thanks.

Sebastian Walker (UBS): Thanks for taking my questions. Firstly, in terms of Ostomy growth, even adjusting for the tender in the quarter that came in stronger than expected. Could you talk about where you are seeing an acceleration in terms of geographies? The second one is bigger picture, following up on what Veronika asked. Karim, I think historically there has been talk of reviewing perhaps the Critical Care business, the skincare business. Are those things that you are considering or looking at currently? Or is there somewhere else where you are focusing your attention? Thank you.

Frank Schulkes: Good morning, Seb. Indeed, the number was 3%. We had a little bit of a tailwind from tender timing so between 2.5% and 3%. To be honest, the story is very similar as we saw in the second quarter. We saw continued growth, decent growth in some European markets and Latin America continued to be very strong. Why the number is a little different is largely a function of if you look at 2018 in dollar terms Q3 was a very low quarter. It was something like $7 million lower than the second quarter and was $4 million or $5 million lower than the fourth quarter. In terms of underlying growth by certain markets, a very similar story to the second quarter and the number is a little lifted because last year Q3 was just a weak quarter in the 2018 overall picture.

Karim Bitar: I think in terms of portfolio what I would say is it is just too early to comment. I think it is premature and frankly as I was saying, I am still under 20 working days at ConvaTec. It is premature. I would just say, we are very much in a diagnostic mode and assessment mode. Obviously, as we try to provide more colour and specificity to our direction of travel in 2020 we will be able to try to maybe answer some of these types of questions. However, right now it is a very, very focused Frank and I on, let us make the assessment and let us prioritise what we need to focus on. One key area that I have already said to you that we are definitely going to focus on is the transformation initiative. That stays paramount and the whole concept of needing to focus on execution excellence, frankly that is probably the top of mind concept or idea that we have right now.

Sebastian Walker: Great, thank you. Could I maybe follow up on the transformation initiative? When you have had a look at the budgets and the costings for the different programmes that are being run, at this stage are you happy with what has been set aside? Or do you think there might need to be some tweaks there?

Karim Bitar: I think the short answer again is it is just premature to draw a conclusion. That is obviously something I am looking at which is, what are the initiatives? What areas are they focused on? When do we expect them to impact? What is the kind of investment required? However, I think the positive thing is that there is a real commitment organisationally and we are putting in place the resources to make sure that we drive that transformation agenda. Again, we are going to need to size up, is the investment going to suffice or not but I think at this point it would be premature to draw any conclusion.

Sebastian Walker: Great, thank you.

Paul Cuddon (Numis): Three quick questions, please guys. If you were to add up the tailwinds for Wound Care and the tendering for Ostomy are they as significant as the benefit you have had in CCC? Next on Infusion Devices, sales have been pretty stable around the $70 million mark now so any reason why we would now to see a substantial decline in Q4? Lastly, on the covenant, I think the last facilities were pretty generous so if you could run through the new debt facility covenant that would be appreciated. Thank you.

Frank Schulkes: The tailwinds are in terms of basis point impact smaller than the CCC one. The CCC was a combination largely because of the packaging recall and a little bit of tail end of the rationalisation of the portfolio, which was about 370 bps for the specific franchise and about 90 for total group. I would say if you take out the tailwinds in Wound you probably come a lot closer to 3% underlying growth. That is how we have to look at this. The impact was material for Wound but not as big as CCC. Then ID, $70 million, as I said before, ID is following a very different pattern every year. They have a very lumpy quarterly profile and therefore last year we had a very weak Q4 but we had a very strong first half. The weak Q4 was -25%. Given that this year we also had a very strong first half you cannot just translate that into last year you were -25% so this year you are going to be plus double-digit. That is not going to happen because a lot of the orders came already earlier in the quarter and therefore I prefer, as I have been doing for the last two years, to talk about ID more in terms of full year growth. The full year growth is going to be lower than historical growth rates of about 4-4.5% largely driven by the dynamic of Animas being out of the market. That is how you have to look at it. Year-to-date, September 1.9%, full year less than 4% and you can do the maths.

Paul Cuddon: Thank you and then the covenant?

Frank Schulkes: Basically let me just give a little bit of an overview of what we have achieved here. First of all of course we have now full deal $1.5 billion with a five-year maturity all the way out to 2024. It is a deal with a relationship bank group and we also brought down the overall number of banks. In the prior deal there were around 20. We're going down to around 14. We also have full flexibility to go into of course the debt capital markets at a later stage if we want to. Except for a share pledge this debt is fully unsecured versus the prior one which was fully secured. Covenants are pretty light. We basically have an acquisition spike in the covenants which will allow us to go up to $4.5 billion or so. Then of course over a period of time we have to bring that down so a good deal for the company.

Paul Cuddon: Excellent, guys. Thank you very much.

Chris Gretler (Credit Suisse): Hi, good morning and welcome Karim to our world here. I am wishing you all the best and hi Frank, hi John. I have a few questions. First on the refinancing to follow up, could you actually quantify now the savings you expect from these new refinancing lines?

Frank Schulkes: Overall the interest cost is going to be very similar to the old deal because on a pure deal-by-deal comp the interest cost is coming down but, as you probably know, on top of the prior deal we had an interest swap in place that would expire in 2020. That basically brings down the interest charge from the old deal to the same level as the new deal. That is how we have to think about it. Deal-versus-deal, favourable but because of the interest swap similar interest cost.

Chris Gretler: Okay. Then on the Wound Care business in the US I think you did not really comment that you already see certain improvements. Is this salesforce expansion impacting the growth from Q4 onwards or what would be your expectations?

Frank Schulkes: As you know, in the first half we have indeed changed our model to a more specialised salesforce model finalising that with key hires etc. over the summer, including training. In the second quarter we already saw an improvement in call rates and that has continued in the third quarter, a low double-digit increase in call rates. Also, in Medical Devices it typically takes 6-9 months before sales people are going to be productive and therefore in line with what we said in August we do not really expect any improvement in output in 2019 because of that productivity ramp-up. We should start to see some returns coming in over the course of 2020.

Chris Gretler: Okay. Then on the catheter business, could you maybe be a bit more specific on the performance of the HDG business in terms of growth rate. Is it double-digit on a sequential basis?

Frank Schulkes: If you take the easier comp out of the equation, which we said was about 370 basis points, you come to a 4-4.5% growth rate for CCC. HDG is growing a little higher than that and then the number is dragged down by continued lower performance in hospital and critical care as we have experienced. HDG is not a double-digit grower. It is somewhat higher than the 4-4.5% that we experienced for the total CCC business.

Chris Gretler: Okay. Then my last question is on Ostomy. You mentioned the SKU rationalisation from Q4. Would you be able to quantify that? I think you did so in the past on the CCC business, for example. That would be helpful.

Frank Schulkes: Yes, this is just a start of a relatively small sample of SKUs so we are not really quantifying that at this stage. When we are going to talk in 2020 about the transformation there will be some more information about our overall plans. However, at this moment I would like to keep that under wraps.

Chris: Okay, I appreciate that. Thank you.

Hassan Al-Wakeel (Barclays): Thank you for taking my questions. I have two please. Firstly on Ostomy, how is the US business performing and are we seeing any improvement in NPC rate trends? How should we think about the business in Q4 and in next year? Secondly, also in Ostomy, do you have an updated timeline for the new product platform in this business? Should we expect it to be a 2020 or 2021 event? Thank you.

Frank Schulkes: The US business the NPC we have, first of all it is sample data, as you know, and it is always delayed but the latest information we have is through the second quarter of 2019. We continue to see a slow decline in NPC data in the US. That business is not performing in line with the market and not contributing at all to the growth of the Ostomy business at this stage. The second question, we do not comment on quarterly franchise or quarterly target numbers for organic growth. I would like to keep that to myself.

Karim Bitar: Then I think there was a question about the new product areas.

Frank Schulkes: New product launch, I do not think there is going to be a new product launch or changes to the current platform in the year 2020.

Hassan Al-Wakeel: Thank you very much.

David Adlington (JP Morgan): Thanks for taking the question, guys. On your Wound business in Germany, I wondered how exposed you were to the silver and whether you are seeing any other markets reassessing the usefulness of silver? Then also in Wound, one of your competitors recently launched a gel fibre product to compete with you guys. I wondered if you had any early feedback on that and how you are trying to defend against that new product launch.

Frank Schulkes: The Wound business in Germany I think is about 5% of our total business and about half of that is silver. As we have mentioned before, the fact that active ingredients are probably going to be taken out of the classical reimbursements that does not mean that we will lose that business. However, of course that will have to be replaced with non-active ingredient type products where we have a good portfolio of products. We expect that the official decision is going to be made public towards the end of the year and then it will be implemented probably in the first half of 2020. However, there will also be guidelines for manufacturers like us, if it is going to be taken out how we can get silver back in classical reimbursement.

On the competitor product the gel fibre marketplace there has been a lot of products and it has been a competitive marketplace for a very long time so no real change there. We have not really seen any of that product yet. We believe we have a very strong product, a very strong brand with our AQUACEL product line and we have great market share position in a lot of markets. However, we have not seen any activity yet from that competitor.

David Adlington: Thank you.

Charles Weston (RBC): Hello, thanks for taking my questions. I have two. First of all, to touch back onto the ID lumpiness, you were talking about how it was a very strong first half last year and a weak fourth quarter but that was specifically due to some inventory policy changes which affected sales by $20 million. Without that the revenues would have been flat in Q4 so is there any reason other than lumpiness why revenues would not have rebounded in Q4 2019 compared to unadjusted Q4 2018 number? Secondly, this is the first quarter for some time you have not talked about skincare. Is that because it is now just sufficiently small it is not worth talking about or has that business stabilised? Thank you.

Frank Schulkes: The first question, I do not know if I totally understand the question. Was that specifically related to ID?

Charles Weston: Yes.

Frank Schulkes: Last year, indeed Q4 was a very big negative but, as I said before, it was a negative 25% because of quarterly lumpiness. You cannot really look at that business quarter-by-quarter and therefore you have to look at this at total year level. The total year will be below historical growth rates. I do not know what is further necessary to explain that.

Charles Weston: It was specifically about the change in inventory policy that happened in Q4 2018, which was the cause of the lumpiness in Q4.

Frank Schulkes: That is right. That is right. Let me give you one more specific historical element here. In 2017 there was a big recall activity that drove inventory down to very low levels in that specific customer. Then the plan was to get the inventory levels back to normal rates at the end of 2018. That happened throughout Q1, Q2 and to a certain extent Q3. Then we got in Q4 suddenly this big correction that the customer decided we want to stay at these very low levels that we started with. That is the reason why you saw a correction in Q4 but at the total level for 2018 the inventory levels were very similar. As I mentioned before, we had a very strong first half in 2019.

Charles Weston: Okay and then on skincare?

Frank Schulkes: Yes, skincare is for the full year a clear drag. In Q3 we had less of a drag but in total as part of the legacy product group of about 40% the overall drag in the Wound Care franchise was very similar as we have experienced before. Pretty decent to good growth in Foam and Silver with a drag in the legacy portfolio and skincare is a portion of that. It is at similar levels as it was at Q2.

Charles Weston: Thank you.

Karim Bitar: I just want to try to conclude by basically saying thank you to everybody on the call on Frank's behalf, on my behalf and on John's behalf. We are very much looking forward and I am certainly looking forward to meeting each and every one of you in person. I wanted to say thank you for the open and constructive dialogue. Thank you to everybody and we look forward to seeing you soon.

[END OF TRANSCRIPT]