Convatec Group plc
2023 Annual Results
Onsite Video Webcast

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Transcript

Karim Bitar: Good morning. Boy, you guys are awfully quiet. I feel like I'm in a classroom here or something. Anyway, look, it's really good to be with all of you today and thank you for joining us. As you think about 2023, I think it's fair to say that Convatec delivered some really strong results, and I think what's also clear is that we're delivering sustainable and profitable growth.

What Jonny and I would like to do today is to really spend some quality time with you and discuss with you how is it that we're being able to deliver sustainable and profitable growth? And we want to do that by really looking at it through key lenses. Lens number one is from a strategic vantage point, what are we up to? And B, from a financial perspective, how are we actually delivering sustainable and profitable growth? So as you think about that, let's try to focus on the financials first.

From a financial perspective, I think what's clear is that in 2023, we went ahead and accelerated our revenue growth, and that was broad-based. Second, what you'll notice is that we expanded our operating margins for a second year in a row, and thirdly, we actually saw an increase in earnings per share and free cash flow to equity. So clearly, again, strong financial performance.

But when you look at our competitive position, that also strengthened. And what's particularly notable is now the strength of our pipeline, and we'll spend more time there. So as you start thinking about strong financial performance, strengthening of the competitive position and a rich and deep pipeline, that gives us confidence that we're going to go ahead and grow even faster.

So therefore, we've gone ahead and increased our medium term outlook on the revenue side from the historical 4 to 6% to now it being 5to 7%. In addition, we expect to continue to go ahead and grow and expand our operating profit margins.

Let's look at some data. I'm just curious, who was with us here about four years ago? Veronika was here. I remember you, Veronika. I remember you two there. So I remember quite a few of you, but four years ago we rolled out a new vision. We started off with pioneering trusted medical solutions to improve the lives we touch, right?

We said we're going to be R&D driven, innovation driven. Trusted medical solutions, you could rely on us. Trusted, solutions, device, plus service, plus digital. We were touching people's lives. We took it really, really personally. We were touching you physically, emotionally, and socially, and that could be your mom, it could be my dad, it could be your brother, it could be my sister.

And then we rolled out a corporate strategy, FISBE, focus, innovate, simplify, build, and execute. As we vigorously executed on that strategy and really ensured that that vision comes to life, what you see is a clear acceleration in organic revenue growth.

Back in 2018, our revenues were in essence flat as a pancake. And what you see progressively happening is that the revenues are growing from low single digit to mid single digit to high single digit. So how do we do that? Well, the first thing we had and did was to go ahead and focus on execution, both commercial execution and execution in the area of quality and operations. We made sure that we increased our do say ratio, right? Whether that was improving targeting or improving quality.

The second thing we did was to say, we are going to invest in R&D. This is an innovation driven business. We're going to invest in commercial, and that's what depressed our margins. That was a deliberate move. But in parallel, what we did was we embarked on a simplification and productivity agenda in G&A, in quality and operations, in the area of commercial. We also proactively manage price and mix, right?

So for example, on the mix side, we exited businesses such as the skin care business and the hospital care business. Low growth, low margin businesses. But we added businesses such as Triad Life Sciences, US Biotech in the biologics area. High growth, high margin business.

And furthermore, what we went ahead and did was to go ahead and leverage and take advantage of operating leverage. So when you started combining this whole notion of operating leverage, price and mix and simplification productivity, you're now starting to see the benefits in increasing operating margins and you ought to expect that to continue moving forward.

What about 2023? How did we do? What happened? I'm going to pass the baton to Jonny to answer that question.

Jonny Mason: Thank you, Karim. Hello, everybody. So I'm just going to talk to the headlines of our financial performance in 2023. Then I'll talk about outlook a bit, hand back to Karim for the strategic outlook. Here are the headlines for a strong financial performance in the year.

So organic revenue growth was 7.2%. As you've just heard, that represents the fifth consecutive year of accelerating growth. Operating margin improved to 20.2%. That would've been 20.8% on a constant currency basis. It was 130 basis points of underlying performance improvement, and that makes 250 basis points of improvement over two years.

EPS returned to growth in 2023 and grew just over 6%, and cash flow improved. Our free cash flow to equity was $228 million, which was over double the amount of the previous year, and that represented a conversion of 83%. This cash enabled us to invest in CapEx and in M&A whilst keeping leverage constant at 2.1 times EBITDA. Then the board is recommending an increase in dividend of 3%.

So let's get into it. From this graph you can see that the organic sales growth was broad-based across all four categories. You can see that on the top and we'll talk about each category next. The bars show each category contributed to the group's sales growth. And then on the right hand side, you can see that the major reduction to get to total sales growth was because of that exit from the low growth, low margin hospital care in 2022, which was a net reduction in sales of 91 million.

So top right, the group's organic growth of 7.2% was a 3.2% growth on a constant currency basis. By category then. Starting with wound care at the top here, organic growth was 9.5%, and that was benefiting from InnovaMatrix contributing to organic from April last year and growing quickly throughout 2023, starting to gain share in the biologics segment in the US.

In the antimicrobial segment, we maintained our strength with our world-leading brand AQUACEL Ag+ Extra. And we started to improve in the foam segment as well following the launch of Convafoam last year.

So we saw strong growth in GEM despite a slowdown in China in the second half. Continued good growth in Europe and an improved performance in the US with modest growth starting from the Convafoam launch and also the contribution of InnovaMatrix. A strong year for wound care.

Ostomy care then at the bottom of the chart. Organic growth rate 4.2%, but within that Convatec product grew 6.3%. That's the fifth year of accelerating growth of Convatec ostomy product as you can see on the grey bar. And remember, it's the Convatec product that drives profitability in this category.

Strong growth in GEM where we are gaining share in important markets like China, Brazil and Colombia. Good growth in Europe, although moderated by a reduction in non-Convatec product in the UK as planned. And then in the US we started to see some modest growth as the home services group are helping to add new patient starts.

Continence care. Organic revenue growth, 6.5%. Remember, this is predominantly a US business and we benefited from an increase in reimbursement rates in the US. The home services group performed very well with excellent customer satisfaction scores, great customer retention, all based on world-class service delivery.

There was an increasing share of Convatec product, both Cure Medical and GentleCath within the HSG portfolio, which is good for margin. And then we strengthened our competitive position with two bolt-on acquisitions, totaling an investment of $28 million.

At the bottom is infusion care, organic sales growth of 8.7%. This represented continued strong growth of demand for our infusion sets for people with diabetes. And we supported in the year customers with three new product launches. They're listed on the slide. Our Neria Guard platform for non-insulin therapies grew double-digit. That included AbbVie's launch of its Parkinson's treatment in Japan, strong demand for immunoglobulin therapy in Europe and also pain management medications.

So move to profitability then. You can see the graph, I've already said operating margin improved 70 basis points or 130 basis points at constant currency. I'll just pick out a few items. Price added a 100 basis points to margin in the year, and this was about half from the continence care reimbursement increase and the remainder was across GEM and in other areas.

The mix improved the margin by 250 basis points, which was predominantly the exit from low-margin hospital care and the entry into high-margin biologics within InnovaMatrix. Inflation on COGS in the year was an average of 6.5%. That led to a headwind of 250 basis points on margin. It was lower than the inflation the previous year at 8.6%, and we think inflation will continue to reduce into 2024 in the range of 3 to 5%.

And then operations productivity improved the margin by 110 basis points. This was from network rationalization and continuous improvement projects. It was the same run rate as delivered in 2022. Conversely, we invested more in OpEx in R&D and in commercial expenditure to drive future growth. Roughly half of this was related to InnovaMatrix and the other half was other things.

Finally on this graph, we made further progress on G&A. We're now down to 8.1% of sales. We're well on track to reach our target of 7% of sales and then let's see after that. So altogether, this represents continued steady progress towards our target of mid 20s operating margin.

Going further down the P&L, our net profit and our EPS returned to growth in 2023 and both grew just over 6%. That's because operating profit grew by more than financing costs increased based on an increase in market base rates. Going forward, we expect EPS to grow in double digits from here.

And then a quick word on adjusting items. These are a notable feature of Convatec's statements based on our corporate history and the fundamental transformation that the business has been going through, and we've had a few questions about them.

The reason we make these adjustments is to be able to identify the underlying and ongoing earnings of the business. These are the difference between the reported numbers and the adjusted numbers in our statements. We follow a strict policy where we have three categories, which you can see on the table. It's one-time material fundamental restructurings such as the exit from hospital care, it's M&A and it's amortization of acquired intangibles.

In that last category, for example, there's a very large item of over $90 million per annum of non-cash amortization, which arose from the spin out of Convatec from Bristol Myers Squibb in 2008 and that will be fully amortized in 2026. So it's a very good example of why it's much better to look at the adjusted numbers if you want to follow the performance of Convatec.

Important to note that the cash impact of these adjustments, you can see this on the right, is much less than the book impact. In 2023 it was $23 million. It's also important to note that there are no adjustments in free cash flow. So all of this is deducted before coming to our definitions of free cash flow to capital and free cash flow to equity.

So onto cash flow. And again, you can see the bridge, EBITDA was up 5%. The change in working capital was much smaller in 2023 because it was in 2022 that we had to do a substantial inventory build to improve the resilience of the supply chain. Working capital now is at a level where we don't expect it to grow any more than sales going forward.

CapEx was in line with guidance at 129 million. That's 6% of sales. We still think 5% of sales is about right ongoing, but there's a bit more catch up to do for a couple of years before we get to that level. And then after the adjusting items that I've just mentioned and FX, the operating cash conversion was 84%.

Then after tax financing and leases, free cash flow to equity, 228 million, more than double the year before with a conversion of 83%. The dividend was $111 million of cash but please bear in mind that in 2024, that will be more because we've decided to stop the script dividend.

And then there was 179 million of M&A across the ATT earn out, the new nitric oxide platform that we acquired and the bolt-on acquisitions incontinence care. All of that led to a small increase in net debt, but leverage - net debt to EBITDA was constant at 2.1 times.

So as Convatec is pivoting to sustainable and profitable growth, five years of accelerating sales growth, two years of improving profitability. Last year we saw EPS grow and cash improve and we expect those two to increase in double digits going forward. We are starting to see the flywheel in effect. As that cash grows, there will be more to invest to drive and to sustain the growth.

Then our priorities for investing capital haven't changed. All whilst maintaining a prudent balance sheet with a target of 2x net debt to EBITDA. We'll first of all invest organically in OpEx and CapEx to drive growth. We'll continue to grow the ordinary dividend, although that will be by less than EPS until we're back within our target payout ratio range of 35 to 45%, which could be by next year.

Bolt-on M&A will continue to strengthen our competitive position in our focus areas and we'll apply our leverage target flexibly temporarily to allow ourselves above two times for the right sort of deals. Then thereafter, any surplus cash would be available for return to shareholders.

So for 2024 then, here's our guidance. Organic sales growth will be 5 to 7% and we've increased the medium-term range to the same level as well. In 2024, the first half will be a bit softer than the second half based on the visibility of the orders we've got. That'll be mostly in wound care and in infusion care.

We're guiding to a further expansion of operating margin to at least 21% on a constant currency basis and also to double-digit growth in EPS and free cash to equity. And then on the right of the slide, there are some specifics around financing, tax and some cash items.

And then I'll finish with a reminder that we are on track to deliver our mid 20s operating margin by 2026 or 2027. Over the last two years, we've expanded the margin by an average of 125 basis points a year in an inflation intensive environment. Going forward, we plan to expand it by an average of 100 basis points per annum or more and we'll do that by continued focus on simplification and productivity in costs. In G&A, by expanding the scope of our global business services function. In operations, with more network rationalization and continuous improvement, but also seeing benefits coming through from automation and smart factory. In commercial, where we have rolled out new practices and new tools to all of our major markets now, and we'll leverage those to deliver productivity. And then the mix, the profitability mix will improve too as new products roll off our innovation pipeline and as we continue to increase the proportion of Convatec manufactured and Convatec branded product in the mix.

Operating leverage will be a bigger feature as we get past the exit of hospital care and pick up a faster growth rate at 5 to 7% per annum. And then we expect the headwind from inflation to be lower than it has been over the last couple of years. So all of that adds up with our increased top-line guidance and our progress to mid-twenties operating margin to support the delivery of double-digit growth in EPS and free cash flow over the next years to come. So Convatec is definitely pivoting to sustainable and profitable growth. Thank you.

Karim Bitar: Thanks Jonny. So let's go ahead and shift gears now and really focus on strategically how are we going ahead and improving and strengthening our business. So you're all familiar now with our FISBE strategy. And I think what's clear is that today, we've got a business where over 90% of our revenues are being generated in the chronic care space. So you should be thinking about diseases like diabetes, diseases like cancer, or immune diseases like multiple sclerosis or Crohn's disease. I don't wish these upon anybody, to be clear, but what I'm trying to highlight to you is that from a strategic vantage point, they're large, they're growing, and it creates a sticky business model.

What's also notable is that from a focus perspective, we've identified four categories and 12 geographies that we're focused on. And we've invested disproportionately in these four categories in 12 geographies. And so you see us growing in these 12 geographies even faster than the entire enterprise. The whole enterprise is growing at about 7%, and we actually grew over 8% in these geographies. On the innovation front, we're also making a lot of progress. Today, about 27% of our revenues are being generated from new products that were launched in the last five years. As you think about that, that bodes very well in terms of sustaining growth. And we're going to drive that number even higher and more aggressively, and I'll talk to you about that in a second. But beyond that, we're also very, very focused on capturing economic surplus. And so our IP strategy and execution is very important. Historically, we might've filed single digit numbers of patents per year. Today, we find ourselves filing patents 80 or more per annum. And that bodes well. Not only are we more focused, not only are we more innovative, but we've simplified our organization and the enterprise. We went ahead and built out global business services with centers in Lisbon, in Bogota, and now also in Kuala Lumpur in Malaysia.

So we've taken basic processes, like purchase to pay, or record to report, and we've standardized them and we've automated those. And what that's done in essence is to drive down how much we're spending on G&A. And so we would've spent about 12% of sales on G&A, and now we're spending closer to 8% on G&A, and there's room for further improvement. Beyond that, we haven't limited our efforts on simplification and productivity to G&A. So we focused on quality and operations there. We've gone ahead and optimized our network. If we had facilities that were not at scale or competitive, we exited. We did that in Belarus, we did that last year in the Netherlands.

In addition, because we're making high volume, high quality consumables, hundreds of millions, right? Hundreds of millions, we're investing heavily in automation. So in our five major factories, we've invested in automated packaging lines, automated production lines, and this improves both quality and efficiency. Capabilities. We've built new capabilities. A very good example is our pricing center of excellence, where we think through strategic pricing and tactical pricing. It's four years in a row now that you've seen price go up. In 2023, we increased price and that benefited us to the tune of a hundred basis points in terms of gross margin.

But there are other capabilities that we've built. A good example would be in the area of clinical. As we strengthen R&D, we focused on product development, process development, clinical development and regulatory. But specifically in clinical, we find ourselves now where we're running our own randomized clinical trials. That would not have been the case several years ago. We've got observational studies being carried out. And you might say, why is that important? It's important because as we gather and develop the scientific data, we can then provide it to our medical teams and our commercial teams so they can engage with healthcare providers, with doctors and nurses, and highlight to them the features and benefits of using our products and services and makes for a much more meaningful discussion. And you position yourself as an innovator.

And then what about execution? We're very focused on improving our do-say ratio. When it comes to targeting and making sure that the majority of your call frequency is focused on your key accounts, we further improved that by 20%. And similarly in the area of quality, we measure the complaints per million that we have, and we're driving a quality improvement agenda there. We analyze literally these complaints how many of them are coming from a design issue? How many of them are coming because of how we produce the product? How many of them are coming because the consumer is having difficulty understanding how to use our product? And then we tackle that proactively. And so we further lowered the complaints per million by an additional 20%. So clearly, the FISBE strategy is delivering.

So let's focus on the pipeline. So when you look at this chart, what's very evident is that right now, we're in the midst of launching eight new products, and they're across all four categories. And what's exciting is that the initial reaction in terms of uptake has been encouraging and is positive. Above and beyond these eight new products, we plan on launching a further seven new products. So we're going to find ourselves, in roughly 24, max 36 months, having launched 15 new products. I mentioned to you earlier the Vitality Index. We have committed to making sure that at least 30% of our revenues are generated from new products. I'm confident to tell you that we will achieve that goal. Right?

So as you think about the pipeline, that's what's giving us confidence that we'll be able to sustain our revenue growth and further go ahead and drive the business. But let's shift gears now and really focus on category by category what's happening. Wound care: terrific business. We compete in three key segments. In the first segment, the antimicrobial segment, we're the world leader. We have about a 30% share of market. We've got the leading brand, AQUACEL Ag Extra. It really is the gold standard. And it's growing double-digit. But what's coming behind that? What's coming behind that is that we're developing a wound dressing leveraging the nitric oxide technology platform that we acquired from 30 Technology last year. And that bodes very, very well. We're excited about the antimicrobial properties of the nitric oxide platform. But potentially, we may also see that the speed of healing has gone ahead and increased. So we're very, very excited about this.

B in the foam segment, which is a large segment, where historically we did not have as competitive a product offering, we launched ConvaFoam. We launched that last year in the United States. And we're getting positive reactions from a clinical vantage point, where healthcare providers are telling us, "Wow, we've noticed the better adhesion properties, we've noticed the better exudate absorption properties." And so we have to run evaluations, literally where we go into a hospital and we're assessed vis-a-vis what's currently being used. And in over half the times, we're being selected and being told, "Yes, we want to move forward with ConvaFoam." That's an important signal. Now what's even more exciting is that ConvaFoam will be launching here in 2024 in Europe. And so it'll soon be available in key markets including the UK.

And then lastly, the biologics segment. It's a very large segment. It's growing very rapidly. We've got a highly differentiated product offering InnovaMatrix AC, our porcine placenta-based biologic, which is used to treat very difficult to treat wounds such as diabetic foot ulcers, and is performing very well clinically. In fact, we've now been able to go ahead and secure our presence on the formulary with key GPOs and IDNs such as Vizient and Premier. And moving forward, we're developing new formulations and new indications such as a InnovaBurn. So fundamentally, we see our advanced wound care business being able to grow high single digits moving forward.

What about ostomy care? This is a really neat area. Right? This was probably one of the more challenging businesses that we had four years ago. So what's happened here? Jonny highlighted this to you. We're actually growing Convatec product by 6%. That's what we did last year. Right? And the reality is that we've basically focused on three key levers. The first one is commercial execution, the second one is all about quality, and the third one is all about renewing the portfolio.

On commercial execution, what did we do? We focused on making sure that the frequency with which we spend time with major cancer centers around the world, whether it's MD Anderson in Houston or The Royal Marsden here in London, we've increased our presence there, that's really important, by about 30%. But in addition, in key markets like the United States, we're collaborating as one team with the Home Service Group. And so as a patient moves from the acute setting or a hospital setting, right post-surgery, they're going to go back home. And we've got world-class service in the home service group that historically would've only done continence care, but now is also doing ostomy care. That's a new phenomenon for us at Convatec. We've only been doing that for about three years, and we're getting some really good results. We're growing revenues there by 15% per year and expect further growth.

On the quality side, we focused actually on going ahead and improving the quality of our products. So we've reduced the complaints per million by 10%. And in addition, tried to improve the quality of our service. So for example, we run literally ostomy care clinics in Latin America, in places like Brazil and Colombia, and we provide world-class service there. So by improving quality, that's also helping our business. And then lastly, we're looking to renew our portfolio. So the first thing we did was to rationalize our SKUs by about 40%, from about 2,400 down to 1,500. Why did we do that? These were low margin, pretty dated products. But at the same time, we now are in the midst of launching new products in large and rapidly growing segments, such as the soft convex segment and the accessory segment.

Let's go ahead and double click and understand what are we doing on the new product front. This is really exciting. For the first time in about 10 years, Convatec has developed and is launching a new product in ostomy care. It's Esteem Body. So what is Esteem Body? Esteem Body fundamentally takes the great adhesive properties that we've always had at Convatec. We've been known for the fact that we don't cause leakage. We don't go ahead and cause skin irritation. But frankly, our pouches have not been sufficiently discreet. Okay? And so now we've got a new pouch shaped as an eight, which is a lot more discreet, a lot higher quality, and that figure eight has some key benefits such as avoiding bulging. Right?

So we're very excited about this. We've already started launching this product in Italy, here in Europe, and we plan on expanding the launch to other key European markets and the US in this calendar year. Okay? Now, let me give you a little more insight on this. It's important to note that we're going to be making the product ourselves. And why do I highlight that? We're using high speed automated lines. Right? What this does is it ensures quality but also efficiency. And that efficiency translates into helping improve our margins. I'm going to share with you now a video to give you a little more insight about the product.

Video 1: Leakage problem? Problem solved. Introducing our latest advancement in soft convexity, new Convatec Esteem Body with leak defense. It combines gold standard adhesives with a comprehensive soft convexity range and is designed to adapt to the body for a secure, longer lasting seal. As pioneers in hydrocolloids, our adhesives were created to help users get it right the first time every time. Convatec convex ostomy systems feature a rounded outward protrusion of the skin barrier, which can help prevent or manage leakage. Are you managing a flush or retracted stoma? Tension that is located as close as possible to the stoma should be considered if protrusion of the stoma is needed.

Or, do you need to flatten the peristomal skin folds? Peripheral tension, where the tension is located away from the stoma, will help flatten creases and folds that would otherwise interfere with achieving a consistent, reliable seal. Esteem Body features a modern 8-shaped pouch design for ileostomies and colostomies, which is designed to minimize bulging and sag less as it fills. The chevron shape is designed for urostomies. Both are water repellent and are designed to be visually discreet and to hide the content of the pouch even when wet. Secure seal, a healthy bond for everybody. Esteem Body with leak defense.

Karim Bitar: Super. So I hope you're getting a sense that we really are making substantial progress in transforming our ostomy care business. And what I'd like to do now is to shift gears and focus on what's happening in continence care. Continence care, again, a really good business for us. We've always had a really strong presence in North America, particularly in the United States. And as you may know, we have about a 40% share of market from the service perspective.

We've got terrific service levels. We tend to sustain world-class net promoter scores of about 80 plus, which is comparable to an Apple or Walt Disney.

And when you think about that, what we've also done in the United States is to go ahead and add further scale. So we acquired A Better Choice Medical last year. And that was very much of a strategic fit, but also the financial returns that we're seeing from it are also very robust. So really the opportunity for us / challenge has been, how can we grow our North American business beyond the shores of North America? How do we do that in Europe? How do we do that in global emerging markets? And so there what we've done is really to take a two-fold approach. The first thing is to build a commercial presence in Europe and leverage our global emerging markets presence. And take some of the very best competencies from North America, such as our proprietary software to run a home care company, and we brought it to the UK.

So we have a home care company called Amcare. And now today, Amcare has achieved world-class service levels. And we're getting that feedback from consumers and healthcare providers, which is terrific. Right? Now, above and beyond investing in a commercial presence and above and beyond in improving our service levels, we're also looking to make sure that the products that we offer, particularly to the European marketplace, are relevant. So here I want to focus a little more on our GentleCath Glide technology and our Cure technology.

Anybody know what FeelClean technology is? If I asked you what's FeelClean? Anybody know? Some people are smiling, so maybe a few people know. But let's just focus on FeelClean. We've had this great technology for a while, to be very frank, right? It's a proprietary technology. No one else has it. We're talking about the polymer that's used for the intermittent catheter, right? So when I make this intermittent catheter, there's a plastic material or polymer that I need. And what we have, and we're unique in having this, is called FeelClean.

And in fact, the Food and Drug Administration has given us a superiority claim. That's right. It's a superiority claim. We have superior comfort and less stickiness. We were able to establish that in 2022. Now, the only challenge/opportunity is that we've got it offered in this standard format, but we didn't necessarily have it in a form factor that was particularly relevant to the European market. And I'm going to come back to that point. What I want to do right now is focus particularly on, well, what is this FeelClean technology? Here's a short video to highlight to you what it's all about.

Video 2: The performance of this next generation technology has been independently demonstrated by Queen's University Belfast, where FeelClean technology's surface was shown not to stick to or tear tissue unlike other well-known PVP-coated hydrophilic catheters. Additionally, FeelClean technology's integrated surface left no sticky residue in a series of agar tests with leading competitors. Find out more about the comfort and relief GentleCath with FeelClean technology can provide intermittent catheter users.

Karim Bitar: So what did we do? We, in essence, took the FeelClean technology that you just saw. A lot more comfort, a lot less stickiness. And you can imagine if you're having to use a catheter for-

... a lot less stickiness. And you can imagine if you're having to use a catheter four to six times a day, stickiness would not be good. And comfort is important. This is part of your life.

But what also is important that it'd be discreet. You don't want anybody knowing that you're having to use a catheter. So I would argue, this is a female catheter. It's about 20 centimeters in length. A male one would be about 40 centimeters in length. It's not very discreet.

So what we've developed now here is GentleCath Air. It's much more discreet. It looks like a mascara case. And all I need to do is to literally twist, I'm twisting, I'm going to put it here on the back, just like a cap, just like if you had a pen, and literally I'm going to pull out the catheter. It's ready-to-use.

As opposed to the previous generations where I had a sachet. There's a water sachet in there, and I don't know if you guys can all see that, but I would have to press on that water sachet to activate the catheter so that it would be hydrophilic, water-loving. So you'll need the water to contact the polymer and then activate it.

In this new version, guess what? I literally pulled it out. There's already a water chamber in there, and it's ready to go. That's what I mean by ready-to-use. So you've got the great comfort, no stickiness, highly discreet, ready-to-use.

We've just launched this in France. The initial reactions we're getting are very positive. We plan on launching GentleCath Air for women in the rest of Europe and North America or the US further this year. So we're excited about this.

And let's go now to infusion care. What's happening there? Infusion care, look, the diabetes business continues to do well for us. We're partnering with key customers like Beta Bionics. They've launched their new insulin pump, their iLet Pump, and that's doing very well in the marketplace.

We continue to partner very well with Medtronic. They've launched their 780G. This is their new insulin pump in combination with their new continuous glucose monitor, Simplera. And we provide them with the only extended wear infusion set available in the marketplace that lasts a week. We are seeing very strong demand, both in Europe and the US for our extended wear infusion sets.

And we continue to collaborate very well with Tandem Diabetes. They're introducing a new insulin pump called Mobi. It's a lot more discreet, works very well with a smartphone. And again, there we're having good success.

Outside of diabetes, we're very focused on pain management, immunoglobulin replacement therapy, and frankly Parkinson's. And here what we're seeing is that we're experiencing very strong double-digit growth. In Parkinson's, the good news is AbbVie has launched now ProDuodopa for the treatment of severe Parkinson's. In Japan, the uptake seems to be pretty strong here, so the initial signs are encouraging. They've now launched in the UK. They've also launched in Germany and are planning on launching in the United States this year. So encouraging initial signs.

What's happening in the future? Well, we've been adding capacity. We've increased our capacity by 35% already, and plan on adding an additional 30% of capacity. This is material.

Why are we doing this? Fundamentally, we see that in the insulin pump market, as automated insulin delivery displaces multiple daily injections, there's still significant room for growth. And we see very significant growth in non-diabetes applications such as Parkinson's.

So let's try to understand now in summary what's going to happen to our business moving forward. From an organic revenue perspective, hopefully you've gotten a sense that we anticipate growing are medium-term revenues, 5 to 7%. So we've raised our guidance there. We expect to grow high single digit in both wound care and infusion care and mid single digit in ostomy care and continence care.

We plan on further expanding our operating margins and achieving mid 20s operating margins. And because of the highly cash generative nature of our business, what we see there are opportunities for proactively securing bolt-on acquisitions. That could be technology in nature, geographic in nature, or capability in nature. And if you combine those three elements, then we anticipate being able to deliver double-digit earnings per share and free cash flow to equity growth year in and year out.

Let me try to summarize. Hopefully what you've taken away today is that the financial performance in 2023 was strong. Revenues grew well on a broad based basis, there was an acceleration, and we saw continued margin expansion and growth in EPS and frankly, growth in free cash flow to equity.

Hopefully you're getting a sense that from an outlook perspective, we're confident in being able to further grow in 2024 on the top line, expand the margin and deliver even more on the EPS and free cash flow to equity side of things.

But maybe the most important thing for you to realize is that today, Convatec is a much stronger business. We have strengthened our competitive position, and we're competing in very attractive chronic care end markets.

Second, we've got a rich pipeline, which bodes well in terms of the long-term outlook. And when you look at that element of strong financial performance, strengthened competitive position, rich pipeline, that gives us confidence that we're going to go ahead and grow our earnings per share and our free cash flow to equity double-digit year in and year out.

Thank you very much. At this point, maybe we'll take a few questions. If you could just highlight your name and I'll just try to... Wow, lots of questions. I'll start from the back row and then try to move forward. Why don't we start with Graham?

Graham Doyle: There we go. Hopefully. Yep, perfect. It's Graham Doyle from UBS. Just two for me, please. On the revenue outlook, if you go through the growth you've had for the last four or five years, Aquacel's been a big driver, IC's been a big driver, and you can see the diversification in IC. Within the wound portfolio Aquacel, how big an opportunity do you think nitric is in terms of superseding that over the next few years?

And then the flip side is ostomy has obviously been a drag on group growth, but it is improving, and at the same time you have a big product launching soon. What have you done to make that improvement in growth given your sales reps have been selling the same product for a long time? And how sort of excited and what feedback are you getting around the potential take share again in that space?

Karim Bitar: Yeah, so look, I think the first question is basically what's the opportunity with a nitric oxide technology platform? I think it's premature to highlight quantitatively what it could do. I think it's fair to say that we're very excited about it. Clearly we see it having very strong antimicrobial properties and there is the potential maybe to speed up healing. If that were to be the case and you need to have clinical data, as I was talking about earlier, then clearly, depending upon the strength of that data, that could create a particularly attractive opportunity. Also, we're looking to leverage that nitric oxide technology platform maybe across other categories beyond wound care, but we're very focused on wound care today. So look, stay tuned, but cautiously optimistic that it's going to make a meaningful difference in Convatec's long-term growth prospects.

On the ostomy care side, look, fundamentally we have improved commercial execution and quality, as you saw in ostomy care. How is Esteem Body going to do? Look, I've said this to you guys before, my favorite British expression is "proof is in the pudding." Let's see. I think it's early days. But at least initially, the feedback that we get from clinicians and consumers is very encouraging and positive. But I think it's premature at this point. So I think in 12, max 24 months, we'll clearly see how do we actually do with the launch of Esteem Body. But I'm on the cautiously optimistic side.

Graham Doyle: Maybe just a follow-up on Convavac, it's not something you've mentioned for a while, but it's clearly a big opportunity that it's a two-player market, which doesn't really make a huge amount of sense. So what do you think you can bring to the market when you get that product out there, and what have you learned from the previous product?

Karim Bitar: I'll answer the second part of the question. The first one, I'll probably be a little bit more circumspect. On the second one, what we've learned is that from a design perspective, you need to really think about process development. How do you scale up and build high volume, high quality? And so it's a lot about process development, and how do you do that cost efficiently? That, frankly, was not the case with our original attempt with Avelle.

In terms of will we have a point of differentiation? We absolutely will. I'm not yet prepared to share that with you, but we are on track to be launching that in the '25, '26 timeframe period as we highlight it on our chart.

Okay, I'm going to just try to take them in order. Sammy.

Kane Slutzkin: Thanks. Morning. It's Kane Slutzkin from Numis. Just a couple of questions on... Sorry, Jonny, if you could just reiterate the bit about phasing. You mentioned H1 would be softer. Could you just sort of give us a little more clarity on what's driving that?

And then just on infusion care, the bit that's coming from non-diabetes, if I recall, is 10% of sales? Do you have some ambition or target as to how big that can get?

And then just in biologics with InnovaMatrix, just can you remind us how much of growth they've contributed? I think it was about 2%. But yeah, if you can just give us a little bit of a cut on that and the expansion plans for rest of world.

Thanks.

Karim Bitar: Maybe I'll ask Jonny to answer the first question on phasing, the third question on InnovaMatrix, and then I'll take the middle one.

Jonny Mason: Sure. Phasing, it's not a big difference that I'm trying to point to, but it's in wound care and in infusion care. We've got some visibility over the orders going forward, a bit like we had last year. And we're expecting infusion care and wound care to be a bit slower growth in the first half and a bit faster in the second.

In wound care, the China situation is contributing to that. We think it'll pick back up once the anti-corruption campaign plays through, but it's a bit soft at the beginning of the year, as it was at the end of 2023.

And in infusion care, it's just around the customer orders, similar pattern to what we had last year.

And then on biologics, 9.5% organic growth for wound care overall. The non-ATT business was about six. And so it was actually three and a half points contributed by InnovaMatrix for the year. Remember, that's only nine months included. In the first half, it was two and a half. So increasing proportion of growth from that.

Kane Slutzkin: Just the last one was on, what was it?

Karim Bitar: On IC?

Kane Slutzkin: IC.

Karim Bitar: So you're correct that approximately 10% of our revenue's in the infusion care business today are non-diabetes. I think we're going to see that definitely grow. Historically, we've been growing that business, the non-diabetes portion in the teens. I think it's still early days now, but let's see how ProDuodopa does, frankly. There's also another competitor in Mitsubishi Tanabe who we've openly shared, are also developing a treatment for severe Parkinson's, and I would anticipate that that would probably come to market in the '25, '26 timeframe period.

So will it become a larger and more meaningful proportion? The answer is absolutely yes. Let's see how it plays out here in the course of the next 24 months.

Okay, please.

Jon Unwin: Hi, Jon Unwin, Bernstein. I've got a couple of questions, please. The first one is on InnovaMatrix. This has historically been a US market pretty much only, but on your slide you said that in '25, '26 opportunities outside the US. So if you could maybe just give us a bit more information on which specific markets you think there's an opportunity there.

And then on ostomy, if you could give us a bit of information on what portion of your sales in the US today are via 180 Medical versus wholesale. And within 180 Medical, what portion is Convatec product versus competitor and where you see that going over the next couple of years and what the opportunity is there.

And then my final last one is just on FMS. It was a bit up and down in 2023, just what the outlook is for 2024 in that business.

Thank you.

Karim Bitar: Okay. So look, I'll take one and two, maybe Jonny, I'll let you comment on the FMS outlook. Is that okay?

Jonny Mason: Sure.

Karim Bitar: Yeah. So what are the opportunity for InnovaMatrix outside the United States? I would say we see opportunities in key markets in Latin America, and we see opportunities in Europe and possibly also in Asia. I still think that fundamentally, though, one ought to think about that opportunity as being a US-driven opportunity. I don't think it's going to be a balanced opportunity, say as what we might see with ConvaFoam or Aquacel AG Extra just to give you fair balance. So it's incremental, but you're making the investment in R&D, you're making the investment in global quality and operations. So the more you can leverage that on a global basis, that incremental revenue is always helpful.

I would say, look, we've not disclosed what portion of our US sales are through 180 Medical. I would say it is material now and growing rapidly is what I would say there.

On FMS, what is the outlook? Maybe Jonny, let you comment on that.

Jonny Mason: Yeah, so the FMS has gone past its difficult comparables. In 2023, at the beginning of the year, you'll remember it was negative growth because it was lapping COVID. That's all behind us now. So from here on, we expect FMS to grow nicely, and it is indeed part of our innovation pipeline. So we've got a product innovation in FMS coming too to help support growth. That will be supportive of the ostomy category rather than the other way round going forward.

Jon Unwin: Thank you.

Anchal Verma: Hi, Anchal Verma from JP Morgan. Just on your margin guidance, so you've delivered 20.8% margins on a constant currency basis, but for '24 you're only guiding towards 21%. Just trying to understand where your conservatism comes from given inflation is improving, you've talked about operating leverage being higher for '24. So just trying to understand the conservatism there.

And then, secondly, on your free cashflow, you've made very strong improvements in '23. Can you perhaps help us understand going to '24 your conviction on the double-digit growth there, and how should we be thinking around working capital, CapEx and just the building blocks there for improved free cash flow?

Jonny Mason: Okay, well, on margin, look, we're guiding to at least 21% on a constant currency basis. That is a bit lower than the quantum of improvement that we've delivered over the last couple of years.

Look, we want to be cautious. We've said we're going to make steady progress on margin improvement towards our mid 20s, and we're going to get there by 2026 or '27. There's going to be an increase every year. It might not be a straight line. And so, as we look forward to the components of it in 2024, we'll continue to deliver cost improvements in G&A, in GQO, in commercial. There's execution there, so it won't be exactly the same quantum every year, but we'll continue to deliver on that front.

The contribution of mix will be smaller because we won't any longer have that mix effect of getting out of hospital care and getting into biologics. That's in the comparables now. It was 250 basis points in 2023; it'll be much less in 2024. Price will be lower too, we think, because we had that boost from the reimbursement increase in continence care in 2023, which we're not expecting to repeat. So a hundred basis points of price in '23, that'll be lower in '24 as well.

But then you're right, offsetting that is we're expecting a lower headwind for inflation. Let's see how inflation turns out. We think it'll be 3 to 5% range.

And then on free cash flow, look, what we're pointing to now is that working capital is in about the right place. We have had increases in working capital significant, especially in 2022. There was a catch-up component to that to invest in inventory to make the supply chain more resilient. That's done now. So we don't expect working capital to increase more than sales going forward.

We've shared a specific guidance for CapEx, which is 120 to 140. That'll be, again, around about 6% of sales. We see that dipping in a couple of years to about 5%, but probably 6% for a couple of years. And I think with the top line growth and with margin expansion, your models all spit out a double-digit growth in free cash flow on that basis.

Anshul Mohan: Thank you.

Jonny Mason: Is Veronika there? Oh, sorry.

Karim Bitar: Just waiting for it to go around

Jonny Mason: Oh, I see. Sorry.

Sam England: Morning guys. It's Sam England from Berenberg. Just a couple from me. So firstly, as a business, you're moving from a pretty long period where you had comparatively few product launches to a very full slate across all segments at the moment in 2024. So can you talk about what you're doing at a management level to monitor and drive execution across all those launches?

And then, Jonny, could you talk about how you're monitoring return on R&D investment for all of the new launches and how you're thinking about R&D investment within the capital allocation priorities that you outlined?

Thanks.

Karim Bitar: Yeah, look, so how do we monitor the new launches? A couple thoughts. The first one is that we've got a very structured program in R&D, which we call Ideal, which really manages the flow from research to development to scale up to launch.

There's specific gates that we go through that are both technical in nature and financial in nature. And we have a governance process around the entire portfolio, which we call the portfolio management team, which is chaired by head of R&D, and Jonny and I actively participate in that. So you have all the heads of R&D, all the heads of commercial. So there's a pretty structured governance process in terms of managing the pipeline.

For our key assets, we also have what we call launch readiness reviews. I personally chair those. And I'm not going to give you all the details, but just to say that there are certain points in time prior to launch where I'm personally reviewing the preparedness, and then frankly, post the launch to ensure that we're delivering what we said we're delivering, and can there be shared learnings across the board? That's a second way that we go ahead and do that. And I think then we also have a mindset that when you're launching a new product, it's not strictly about development, it's not strictly about scale up and it's not strictly about commercially launching. You need to do that in an integrated manner, so it's really passing the baton.

And so we've created a new function which we call advanced operations. I haven't highlighted that to you before, which is particularly the linkage between the D of development and full scale production. And I think that that organization is also contributing a lot in terms of our ability to make sure that from a design perspective, we're designing products that are relevant for, yes, the consumer and healthcare provider, but equally for our ability to make them because we're making hundreds of millions of units.

So between the portfolio management team governance process and the ideal gate stage, the launch reviews and then this advanced operations organization, I think we've got some pretty robust and pretty high degree of focus on ensuring that these launches succeed.

Jonny Mason: And in terms of return, we've got a very detailed business case methodology that we apply consistently across all of the categories. There is a component of research spend that doesn't really apply. That's relatively small. Once one of the projects goes through what we call the business commitment gate, it needs to demonstrate that it's expected to deliver a return. And our key measure, there are various measures, obviously payback, etc. But the key measure is return on invested capital greater than our WACC. So we're looking for returns on capital ahead of our cost of capital. That's how we do it.

Sam England: Great. Thanks.

Jens Lindqvist: Yeah. Morning, Jens Lindqvist at Investec. Just a quick question on the finance and costs. What we can expect over the coming year or so, if there are any upcoming refinancings that we should be aware of, and also whether 2.1 times is a realistic medium-term target in terms of leverage? Thank you.

Jonny Mason: Yeah, so no refinancings coming up. Our next maturity, well, it's 2027 to 2029 are the maturities. The first one is 27, is relatively small, so we've got a good runway in our current facilities. And then financing costs, we are well hedged. We are guiding to a little bit higher financing costs, $5 million higher in 2024 than 2023, but not much change I think is the guidance.

Christian Glennie: It's Christian Glennie at Stifel. Three questions then, please. On ostomy care, you talked previously in the US about stabilizing that business. Now you're talking about a bit of growth. Just a bit of context around where that business has been over the last few years and that modest growth and the outlook in the US and what's been anything else part of that? Obviously, you've had the rationalization and so forth, and ultimately the key players here are doing more mid to high single digit in that business. So what's the prospects of that? Just secondly, on some FX assumptions, as this stands today on both, the revenue and the margin.

And then finally the perennial question on an IC on patch pumps and the key growth and the competition there. You previously talked about, don't rule yourselves out as getting some benefit and being a player in patch pumps. Just a bit of an update there in terms of the prospects of that.

Karim Bitar: Okay. Why don't I take the ostomy care and patch pump question and I'll ask Jonny to comment on the foreign exchange assumptions?

Jonny Mason: Can I do that first because it's very easy?

Karim Bitar: Sure, go for it.

Jonny Mason: We are not pointing to any significant move in FX at this stage compared to last year as it impacts our business. So the 21% minimum operating margin guidance, the 5 to 7% organic growth. It's all there or thereabouts at current rates.

Karim Bitar: Yeah, look, on ostomy care, what I would say is that on a global basis, clearly in global emerging markets we're growing and taking share. So that's a real positive. John, you commented on that. I think in Europe, in some key markets such as say, in Italy or Poland, we do very, very well. Some of the other key markets we're still what I would call in recovery mode. In the US we've clearly stabilized the situation. So that was not the case before in terms of new patient starts and really what's been driving our growth is this focus on these key institutions where a lot of the new patient stats are.

But then also working very closely with the home service group, as I said before. What's going to happen now with the new product? I think some of you were trying to understand that already.

So if the question is, Karim, is it possible that you could grow in continence care and in ostomy care in high single digit? I'm deliberately highlighting the two. I think it's possible, yes. Is it probable today? I think it's premature. I think it's still too early. I think, let's see how our new products do. Do we sustain our execution record? How does GC Air for women do incontinence care? How do we see GC Air for men do once we get the 2.0 version? How does the steam body do? What happens when we have not only the one piece but the two piece?

So is it possible? Yes. Would I bet on that today? I think it's premature. I think let's stay grounded one step at a time. And then on the patch pump question, yeah, I think again, very busy bunnies is what I would say. We clearly see our technology being able to work in that arena, and I think we've got a very unique position when it comes to extended wear. And I think the theme of extended wear is very relevant in diabetes and beyond diabetes, and we're investing heavily in this whole concept of extended where for competitive reasons, it wouldn't be appropriate for me to comment beyond that at this point.

Okay. I'm going to keep on going down the line.

Seb Jantet: Thanks. Morning. It's Seb Jantet from Liberum. Two questions if I may. First, just going back to CC in Europe. You say you've invested in the infrastructure there. Could you just give us a quick overview of where you are in Europe and at what point do you double down on European growth now that you've got products that are suited for that market? Do we expect to see perhaps some acquisitions in Europe to increase your infrastructure? And then the second question is, so you've increased your midterm guidance, but you haven't changed the margin guidance either timing or quantum, but if your revenue's going up, why hasn't your margin gone up?

Karim Bitar: Okay, I'll take the first one and let Jonny comment on the second one. Look, are we going to double down on your continence care? The way to answer that is, look, we've got four core businesses, right? Four categories that we're very focused on winning in. And clearly continence care is one of them and we want to win in those on a global basis. So are we progressively going to continue to grow and invest in Europe? I think the short answer is yes. Again, as the portfolio continues to broaden and as we see success, then that gives us more confidence in terms of where and how do we seek to that investment?

So clearly we're starting with GC Air for women. We also want to bring to market GC Air for men using that proprietary fuel clean technology. And as you have a full-fledged portfolio, then that creates the basis for investing even more. Jonny, I'll let you take the second.

Jonny Mason: Yeah, look, the higher top line guidance will help us get to our margin target for sure. The difference of a percentage point translated into operating leverage is not massive and we're still quite away from the operating margin target of mid 20s. So let's get there first and then see how we get on. We've got a few more years of delivery of margin improvement first, and then we'll see.

Karim Bitar: Okay, we're going down the last row. So Veronika, I think it's your turn.

Veronika Dubajova: I was going to say this is going to teach me about sitting in the front row in the future.

Karim Bitar: As long as you don't flip it next time.

Veronika Dubajova: Thank you so much. Veronika Dubajova for Citi. Three questions, please. First one, Karim, would love to get your take on how the foam launch is going and if you can share some statistics with us on the market share gains that you've seen? Where are you seeing most tractions, more traction and expectations that you have for you as you roll forward? That would be my first question. My second question is probably for both Jonny and Karim on ostomy care. Obviously, you've seen some impressive growth of the Convatec product. When would you expect the OC growth rate and the Convatec growth rates to converge?

And what's holding us back from that? And then my last question is a big picture question for you, Karim. Obviously a huge amount of transformation. You showed it on your slide at the beginning of the presentation. Now that the business is more embedded in and it's executing on FISBE, what's next on your strategic agenda? Or is it more of the same or are you starting to think about is there bigger balance sheet deployment? Is there more focus or investment into something that we haven't seen yet? Because obviously it's been a very successful transformation since 2019, so thank you.

Karim Bitar: Yeah, maybe I'll let Jonny handle the, when will OC growth rate converge to Convect? And I'll take the foam and the strategic question.

Jonny Mason: Should I start?

Karim Bitar: Yeah.

Jonny Mason: I think there's probably about another year to go. We are moving towards the end of the rationalization of the non-Convatec piece. I think as we alluded to in the slides, it's mostly in the UK and Karim referenced the fact that the home services group customer satisfaction scores in the UK are really picking up nicely. So I'd say one more year and then we should see convergence.

Karim Bitar: Yeah. How's the foam launch going? I'd say it's going really well. I mean, we clearly have a very unique foam offering, and I think some of you who I've met, we've had a chance to try actually Convafoam and you were able to experience the really significant fact that it adheres a lot better. It lasts longer. Nurses like that and consumers like that, it saves some money. And the exudate absorption properties are really top of the class. And so I think what we're seeing is that from an evaluation perspective, because typically it takes about a year for these evaluations to be carried out. Not just physically, but you got to get on the formulary in the hospital, they got to carry out the evaluation, procurement has to make some decisions. So that's usually how long it takes. So I don't focus so much on share of market actually in year one.

I actually look very carefully at the evaluations and I think what's fair to say that, as I said earlier, in over half the time and over 50% of the time, the evaluations are resulting in a very positive signal, which is, well, we actually want to move to you. And it's a pretty darn good signal. So I would expect that we'll see financial contribution in the US this year, having had about a year.

So we should see that come through. Start seeing some initial signs of market share growth. And I would expect that Europe this year instead, we'll experience the eval situation and then we'll start seeing more of a material impact to the financials and to share of market growth really starting next year.

On the strategic side, look, it's really clear. We're just going to stay the course. We don't want to get distracted, we don't want to get giddy. I think it's important that we stick with our FISBE strategy. There's still a lot to be done, right? Yeah, we have 15 new products, but we don't have a track record yet of scaling up and launching successfully. We need to establish that. Yeah, we want to go ahead and get to 24-26% operating margin.

There's a ways to go. So I think it's just important and prudent just to stay focused. Don't get giddy. You know what you got to do, just do it.

Jack Reynolds-Clark: Hi, there. Jack Clark from RBC. A couple of questions, please. One for Jonny, one for Karim. Just on the shape of the margin guidance over the medium term, how are you expecting that to unfold over the next couple of years? I guess the guidance for 2024 flowing on from Anchal's question implies that you're expecting a backend weighting, but is that an appropriate assumption? And the second thing is on the extended wear technology, so you mentioned that a few times, I think, over the last few results. I was wondering how much of the technology is within..outside of the scope of the exclusive agreement you have with Medtronic and how much can be applied in other areas?

Jonny Mason: I'll start with the operating margin. We are not pointing to a hockey stick here. What we've tried to say all the way along is, there'll be progress every year. It might not be a straight line as with a ruler because the real world things happen. For 2024, I think I set out the moving parts and there's some uncertainty in some of those. How much will inflation be, et cetera. So we've said at least 21%, let's see how it turns out. But I think the right way to think about progress and operating margin is steady progress every year.

Karim Bitar: Yeah. Look on the extended wear technology, I'd say we've got a very strong position, we've got a lot of know-how there, and frankly, we do have the strategic degrees of freedom to assess how do we want to leverage that broadly. Whether that be in diabetes or whether that be outside of diabetes. So that's how we're thinking about it.

Jack Clark: Okay, great. Thanks.

Blanka Porklab: Morning. Blanka Porklab from Barclays on behalf of Hassan Al-Wakeel. A couple of questions, please. Can you talk about the contribution you expect this year in terms of growth from new products and what has given you confidence in new products, in terms of patient feedback to increase your medium term growth targets?

And then my second question is, can you talk about the growth in ATT business and the risks to your mind around reimbursement in the space? There were some expected changes last year that haven't materialized and a few other discussed changes. So it would be good to get your longer term thoughts here. And then just a question around R&D capitalization, how meaningful was that in 2023 and what are your expectations in 2024 as product launches accelerate? Thank you.

Karim Bitar: I'll maybe take the first two, then pass you the third one, Jonny.

Jonny Mason: Yep.

Karim Bitar: So look, a contribution from new products, I think the way we think about new products fundamentally is that it increases our confidence that we're going to be able to go ahead and deliver the guidance we provided you with. And so I think as you have more new products out there where you're getting positive feedback, that increases your confidence. And we're seeing that across the board. So whether it's Esteem body, GC Air for women, the infusion sets, the feedback we're getting from the folks that we work with at AbbVie, all very, very positive, right? So that's the way I would think about the contribution from new products.

ATT reimbursement, I would say that the reimbursement context in the US is highly dynamic for all these skin grafts and biologics. I think the reality is that we've been anticipating a potential change in reimbursement in 2025. I think there'll be more clarity in 2024, but it's very, very dynamic. And so right now the way we've been thinking about it is you have to have a very high quality product, make sure you have significant evidence. So we're generating a lot more clinical data and evidence so that we can not only be accessing the public payer, meaning Medicare and Medicaid services, but also private payers, Aetna, United, et cetera.

So focus on the quality. We're also very, very focused on speed. Rapidly iterates, I mentioned to you, InnovaBurn. And we have a whole series of new iterations that we're ready to go with. And then frankly from a cost perspective, and we think we're in a very strong cost position because we are deriving our biologic material from the placenta of a pig, of a sal, in fact.

And so that's really a derivative of making bacon. So look, have we anticipated potential negative or downward pressure on reimbursement? Absolutely, yes. Do we think we're ready? I think the short answer is yes. R&D capitalization.

Jonny Mason: So within our CapEx guidance, the R&D component is 15 to 20 million per annum, and we think that'll be fairly steady over the next few years. Certainly was in that range last year. Now that includes all CapEx in R&D. It's our innovation block on our chart. So there's some assets in there for laboratories and other such things. But the majority of it is capitalization of development spend. When products, they go through the commitment gate ready for launch.

Karim Bitar: Richard?

Richard Felton: Thank you. Good morning. Richard Felton from Goldman Sachs. Two questions, please. My first one is on your OPEX investment, which stepped up a little bit in '23. So how should we think about the need for further incremental investment into 2024 and beyond to support the cadence of product launches that you guys have got coming up? And then second question is on your net debt to EBITDA, which I think came in 2.1 times slightly better than you've been guiding for your 10-month update. I'm just curious what the driver of that slightly better than expected performance was? Thank you.

Karim Bitar: Do you want to take both?

Jonny Mason: Yeah. Look, future OPEX, a lot of the reason that OPEX went up as a proportion of sales in 2023 was the mix effect of going into biologics. Which is very high gross margin, but also high OPEX intensity. And so that mix effect won't be a feature in 2024. Going forward, we are now pointing to further significant increases in OPEX as a proportion of sales. So we are targeting to keep R&D roughly constant around about 5% benefiting from this flywheel effect. As we grow sales, we'll invest more in R&D. And the other major component is commercial expenditure where we would actually expect to see a small leverage effect as we go forward.

And then net debt to EBITDA, it was close, wasn't it? To where we guided... Working capital came in a bit better than we had included in our initial guidance, although we were obviously hopeful.

Richard Felton: Okay, thank you.

Karim Bitar: Super. I hope we've answered everybody's questions. So on that note, I'm just going to say a big thank you for joining us and we'll be in touch. Thank you so much.