ConvaTec Q1 2020

Thursday, 30th April 2020

Introduction

Mark Reynolds

Director of Investor Relations, ConvaTec

Good morning everyone and thank you for joining us for the ConvaTec Q1 Trading Update. I am joined by Karim Bitar, Chief Executive Officer and Frank Schulkes, Chief Financial Officer. I will now hand over to Karim to commence the update.

Strategic Update

Karim Bitar

Chief Executive Officer, ConvaTec

Welcome

Good morning to everyone. It is a real pleasure to be with you all today and I want to thank you once again for joining us. As we are all aware, these are really challenging times but at the same time it is good that we can have the opportunity to get together in dialogue. I hope you and your families are keeping safe and healthy. As Mark highlighted, I am joined by Frank, our Chief Financial Officer who will be taking you through the Q1 Trading in a moment. Later, the two of us will be happy to address any questions you may have.

Q1 2020

As you will hear, Q1 was a robust quarter. In fact, it reflected that customers, including patients, increased their own stock of products. In addition, it is important to highlight that there was a weak prior year comparator and at the same time we did see increased underlying demand. In terms of looking ahead there are increased risks in the remainder of the year and what is important to highlight is that we expect a material reduction, particularly in elective surgeries, to impact our Advanced Wound Care revenues. In addition, external risks across the business exist, including in the supply chain, and we are monitoring these very, very carefully. Our focus is really first and foremost to ensure the safety and wellbeing of our people and their families. Our colleagues are absolutely critical to serving caregivers and patients. The second thing that we want to do beyond ensuring the safety and wellbeing of our employees and colleagues is to really reinforce and secure our supply chain. I will tell you more about that. We have been doing a lot in that arena. Then thirdly we continue with our transformation initiative and we are continuing very much at pace. We are maintaining our 2020 guidance. However, we are mindful of the increased risk.

Rapid Response Team

Now what I would like to do is to share with you some details on how we are responding to the challenges in the face of COVID-19. I think what is important to highlight is that fundamentally we are adapting to the new environment and the new context. We are doing that by being very collaborative, by being very speedy and being very pragmatic in all of our decision making. Specifically, I formed a Rapid Response Team which I Chair, and we have approximately two dozen members on this Rapid Response Team. The Rapid Response Team consists of senior leaders across the company, including folks such as Site Heads, Chief Medical Officer, etc. As a team what we try to do is to bring expertise and decision-making authority into one forum. We meet every 72 hours and we are available 24/7 over Microsoft Teams. This platform in terms of communicating has been very, very helpful to us.

We're focused on six fundamental workstreams. We have one individual who is accountable for each and every one of these workstreams and works very, very closely with me and the entire Rapid Response Team. The first workstream is all about people and focusing on the safety and wellbeing of our colleagues and their families. The second one is all about the supply chain and reinforcing and strengthening the supply chain. The third one is how we interface with customers. The fourth one focuses on financial liquidity. Fifth, as you can imagine, IT is playing an extremely important role and really contributing significantly. Then sixth is medical and under the leadership of our Chief Medical Officer we are keeping a very close eye as to what is happening on a global basis in all the key geographies and also making sure that from the medical perspective we really are leveraging best practices as we keep our colleagues safe.

People Workstream

What I would like to do now is delve a little bit more into detail in regard to four of those six workstreams. The first one is in regard to our colleagues, the people that we all work with so closely and are so critical to helping serve caregivers and patients. The number one priority frankly is to really ensure their safety and wellbeing. These individuals are absolutely critical and crucial to providing the services and products that so many customers around the world rely on. For all of our sites we are implementing best practices in terms of temperature screening, social distancing and hygiene best practices. This is supported by a tremendous amount of ongoing training and certification. Colleagues can definitely be working from home and we have equipped them with the appropriate equipment and access. Frankly, we have adapted well to this new reality.

Supply Chain Workstream

The second area we are focused on is the supply chain. We are taking every opportunity to reinforce our supply chain. We are implementing best practices across all of our sites and these protocols are not only being shared but implemented consistently on a global basis under the leadership of Donal Balfe, our Head of Quality and Operations. We have made adaptations. We have reworked shift patterns and frankly we have also rearranged methods for transportation for our colleagues very consistent with best practice when it comes to social distancing. To date we have largely been able deliver our products and services to our customers.

Customers Workstream

Thirdly in terms of customers, what are we doing there? Fundamentally, we see this as an opportunity to really serve caregivers and patients. They rely on us and so we are very much in that serving mode. How can we be of assistance? As we do that we frankly have been leveraging and accelerating the usage of a numerous set of digital platforms. Some of these platforms facilitate interactive dialogue and they are things like Zoom, Teams and Google Meet which I am sure many of you are familiar with. We are frankly growing our e-commerce platforms and leveraging those a lot more aggressively. Also we are trying to be very innovative and very pioneering by, for example, hosting virtual medical conferences. We recently hosted WoundCon which was a global medical conference focused in the area of wound care. We had approximately 1,500+ healthcare professionals participate in this from 20 different countries and it was a very, very successful virtual medical conference. Lastly in terms of customers we are also trying to go ahead and make sure that we are aware of the context and the communities in which we work.

We are very blessed to have a product by the name of DuoDERM and this is one of our dressings. When you think about DuoDERM as one of our key dressings what we are going to do with this hydrocolloid is we have actually gone ahead and provided over 250,000 DuoDERM dressings to approximately 1,000 hospitals globally. We have done this for free and it is really a gesture on our part to support the frontline staff, whether that be nurses or doctors, who will tend to use DuoDERM on their face, really around their cheekbones, to relieve pressure ulcers which could otherwise lead to bleeding. This gesture has been very much appreciated on a global basis, whether that be places in Europe, whether that be places in Asia or whether that be places in North America.

Liquidity Workstream

Fourthly, let us focus on liquidity. As you will hear from Frank, liquidity remains robust. What we see is that the trends in terms of our liquidity are consistent and Frank and his team did a very good job recently refinancing our debt with a new five-year facility maturing in October 2024.

Transformation

Finally, let us move on from the six workstreams. I focused on four of them and hopefully that gave you a little bit of colour as to how we are responding and adapting to the new context. What I would say in terms of our transformation and how it progressing is, we are very much continuing to drive forward. We are sustaining momentum. In fact, in quite a few instances the whole context is acting as catalyst for us to accelerate the pace, particularly for example in areas such as leveraging digital platforms but also then for example in the area of training and development where we are doing a lot of online training and development. For example, one of the key modules that we are implementing across the entire company is actually a whole concept around the ability to execute and we are driving that aggressively.

Conversely, in a prudent manner some initiatives are being slowed because that makes sense and we are being thoughtful. For example, in some instances some of the planned salesforce expansions that we were planning to make in some of the markets around the world we have decided at this point in time to put those in a holding pattern. I hope that update helps you and gives you a sense of how we are making progress. Now what I would like to go ahead and hand over to Frank so he can take you through Q1 trading.

Q1 2020 Trading

Frank Schulkes

Chief Financial Officer, ConvaTec

Key Points

Good morning everyone. As Karim mentioned, Q1 was a robust start to the year with Group revenue of $460 million increasing 6.9% on a reported basis and was up 8.9% in constant currency. It is important to note that the performance reflected customers increasing their own inventories in light of COVID-19 and the impact of the rebate provision adjustment in Q1 prior year which was a tailwind of about 220 basis points. I will provide some detail on each of these as I walk through the business units.

Advanced Wound Care

Advanced Wound Care revenue of $132 million increased 1.8% on a reported basis and was up 4.5% in constant currency. There was a modest headwind due to COVID-19 as lower activity in APAC was partially offset by some inventory building in the US. The impact of prior year's rebate provision adjustment was a tailwind of approximately 400 basis points in the Wound Care business. Besides the impact of the French reimbursement there were some small puts and takes resulting in an estimated underlying growth of approximately 2-3%. The underlying growth was driven by good growth in global emerging markets and limited growth in the US. This was partially offset by lower growth in Europe.

Ostomy Care

Ostomy Care revenue of $127 million increased 6.6% on a reported basis and was up 9.5% in constant currency. As strong revenue growth was driven by COVID-19 related demand from customers across care settings increasing their own stock of products. Furthermore, the prior year rebate provision adjustment was a tailwind of approximately 190 basis points. We estimate that our underlying growth of low-single digit was broadly in line with recent quarters.

Continence & Critical Care

Continence & Critical Care revenue of $119 million increased 9.5% on a reported basis and was up 10.9% in constant currency. We continue to see good growth in Continence Care driven by our Home Services Group in the US with a good underlying demand and a modest tailwind from increased orders due to COVID-19. The Critical Care business saw strong growth driven by demand for critical and hospital care products due to COVID-19. On top of that there was also a tailwind of about 140 basis points related to the prior year rebate provision.

Infusion Care

Infusion Care revenue of $82 million increased 11.8% on a reported basis and was up 12.6% in constant currency. As you know, quarterly revenue growth rates in Infusion Care can be lumpy, however underlying demand remains in line with our expectations.

2020 Guidance

Looking ahead across the business COVID-19 has introduced increased risks into our operating environment. As sizeable part of our Wound Care revenue is linked to elective surgery as well as hospital visits more generally. We expect to see declines in Q2 and Q3. However, some of this volume may start to recover later in the year. Conversely, we continue to see good momentum in Infusion Care, Continence Care and Critical Care. As a result, we are maintaining our 2020 guidance for the year but we are cautious about the increased risks.

Transformation

As Karim mentioned, we remain fully committed to driving forwards our transformation as we focus on Pivoting to Sustainable and Profitable Growth. In some cases we will accelerate certain investments, in particular in digital capabilities, while in other cases, for instance sales force expansion, we will prudently slow down or defer. Overall we expect the investment to be moderately lower than previously communicated.

Cash and Dividend

Turning to cash, we continue to be cash-generative and have strong liquidity with a debt position and leverage in line with 2019 year-end. Finally, notwithstanding the uncertainty due to COVID-19 the board continues to propose that the 2019 final dividend is paid subject to approval at the AGM on 7th May. With that, we will take your questions.

Q&A

Patrick Wood (Bank of America): Thank you very much for taking my questions. When we are looking at the business overall it has obviously done very well on the first quarter but for the opex deployment mid-to-longer term how much is this disruptive in terms of the ability to actually put the cost through the business? Then any update on GPO contracts for Ostomy in the US? Thanks, guys.

Frank Schulkes: As we said, we are looking at our transformation projects portfolio. In some cases we are accelerating, in some cases we are deferring, but most programmes are continuing. As Karim said, there is good momentum and there is good pace. We expect basically a moderate decline in our investment in 2020 and in some cases that means that we might postpone a certain project start by three months. In some cases it might be a little longer. It all depends of course how long we will be in this COVID-19 situation. I think overall looking at the grand scheme of things and all the projects in flight that there is not going to be a long-term impact but of course the situation stays very fluid and that is how we look at the situation today.

Karim Bitar: Frank, I would like to add one thing here. I think what is important for everybody to realise is that basically our investment and strategy is very much focused on sustainable and profitable growth. That is the way we are managing the business with very much a medium-term time horizon. There are opportunities to contemplate what the new normal is going to look like because we all realise that in the context of COVID-19 there will be a new normal and we are in the midst of establishing what that new normal is going to look like. One area which is absolutely critical that we go ahead and increase our investment is the whole area of digital. Frankly, that is exactly what we are doing right now. If you look at our expenditure in the area of IT we have been actually increasing in a very substantial meaningful manner.

What I would just say on the investment strategy, what we need to be doing is to be thoughtful. What had we planned on doing? However, more importantly, what do we expect the new normal to look like and thereby adjust our investment in the context of that. That is exactly what we are doing. Sorry, Frank.

Frank Schulkes: On GPOs there is really nothing new to report on GPO contracts.

Patrick Wood: Thank you. If I could do one more very quickly, for some of the categories the reimbursement cuts that we see globally tend to come through in lumpy fashion, i.e. most countries ignore the category for a long time and then they look at it again and put a small cut through. Do you think the fact that like a bunch of countries are pretty distracted with other more pressing issues right now than looking at reimbursement codes for smaller parts of the healthcare spend, do you think there is an opportunity that the reimbursement environment may be a little bit more favourable over the coming year or two than historically or just too cynical?

Karim Bitar: Patrick, I think it is a good question. I think it is premature to draw these kinds of conclusions. Clearly when you are defining the new normal as to what is going to happen with healthcare professionals' behaviours? How are payers decision making criteria going to modify or change? How are frankly patients' behaviours going to change? I think that is very, very fluid. We are clearly assessing it and as you can imagine, as we define the new normal we are looking at a variety of scenarios. All I can say is it is premature to conclude but clearly top of mind.

Patrick Wood: Perfect. Thanks for taking my questions.

Amy Walker (Peel Hunt): Good morning to you, I have three if I may please. Frank, thank you very much for the qualification on the underlying demand piece. I wonder, could you help us understand your expectations in terms of the unwind of that stocking on a quarter-by-quarter basis? For instance, could there be even some more stocking in the Critical Care side in the second quarter and then are you expecting unwind as soon as the second half? Some colour there would be helpful.

Frank Schulkes: Amy, it is very tough to in fact assess when this unwinding is going to happen. We do not expect in the short-term unwind of some of these stock builds, particularly in Ostomy Care, will happen but it could still happen within the same year. At this moment, we are following it of course on a weekly basis but for me now to forecast when we think this is going to unwind is too premature. We are following it and for sure when we are finishing our first half there will be much more insight definitely.

Karim Bitar: I would just add, I think it would be imprudent to assume that for sure there will be an unwind in the stocking. I think the reality is we just do not know because I think at both a patient level frankly and customer level, meaning for example hospitals, even at a distribution level I think the theme of resilience is going to become more and more important in a post-COVID-19 situation. As you think about the whole concept of resilience, how do you build resilience? Even as a patient you may have thought carrying 30-days' worth of my prescriptions was good enough but maybe now you feel a little unsure, you are not really sure what is going to happen so maybe you want to have 90 days. I think Frank's response is spot on which is to say there is uncertainty, we need to monitor and assess, and see how things move forward.

Amy Walker: Thank you, that is helpful. Then maybe following on from that theme, Karim, are you taking a similar view in managing your own business? Do you anticipate that you will from here on out maintain higher levels of stock? Will that tend to be higher in some parts of the business than in others? What level of capacity utilisation are you running now and do you envisage running at in the next few months to support all of that?

Karim Bitar: Directionally what I would tell you is that historically enterprises that focus fundamentally on health and safety as a key pillar when running supply chains. HSE needs, the health and safety environment, as the foundation. We tend to have a very heavy focus on quality and efficiency. I think the theme of resilience really was not top of mind. I think that theme of resilience they are going to pick up a lot more important. Certainly at ConvaTec that is the way we are treating it. I think that from a strategic planning perspective and even short-term intervention perspective we are going ahead and reinforcing our supply chain to make it more resilient. I think the practical implication is that, yes, we are reviewing all kinds of interventions. Short-term you can obviously play with things like your inventory levels, whether they be the input, the intermediate product inventory or the finished product inventory. Longer-term you can be looking at other elements such as automation, which also has some benefits. I think the bottom line, Amy, is that we are working through it. What I would say is that as we rise to the challenge with COVID-19 and adapt to the situation for us as a company resilience is clearly top of mind.

Amy Walker: Then are you able to quantify operating rates or capacity utilisation?

Karim Bitar: What I can tell you is that the supply chain is working very, very hard and so capacity utilisation rates are relatively high. We are rising to the challenge and now it is seen as demand as we described it at least in the first quarter, was robust and now we need to see how it plays itself out.

Amy Walker: Very last one, if I may, was I do not know if you can quantify this but you mentioned you have been monitoring activities around the world very carefully. What proportion of your personnel have already been affected by COVID-19 and how far through that personnel impact you might already be and whether there are certain areas that are more affected by others. Any colour that you could give around the impact on your work force specifically would be helpful.

Karim Bitar: It is difficult to say how far through we are. As we all know, there is an asymptomatic aspect to this as opposed to just also typically being symptomatic. Diagnostic testing is actually quite limited on a global basis and obviously that situation is improving. What I can tell you is we have approximately 9,500+ employees worldwide. We track literally on a daily basis what the status is of COVID-19 country by country, region by region. Also, what is the status of our employees. I would say that at any one point in time typically we have had a situation where maybe, and please this is an approximate number, we may have had anywhere between 50-80 employees who suspected they may have COVID-19 either because they think they have been exposed to it or they have some symptoms. They do not know if they have it but they suspect it. We track that. We do also track who are the folks that actually, for example, had to go ahead and be hospitalised and who are the folks who then had to go into critical care. Up to this point, to the best of our knowledge, we have a few folks who have had to be hospitalised but no one has had to go into critical care or intensive care. Again, knock on wood, I would say that things have worked out reasonably well. It is something that we monitor very, very carefully and we are benchmarking how we are doing vis-à-vis the context we are in. Obviously, the context varies quite a bit whether you are in Mexico, whether you are in Denmark, whether you are in UK etc. I hope that answers your question.

Amy Walker: It does, thank you very much.

Alex Gibson (Morgan Stanley): Good morning, thanks for taking the questions. I have two. My first one would be if you can help us decipher the demand you are seeing today that is driving the better growth in your business. More specifically, if you could give a breakdown of growth that you could try to attribute to inventory stocking versus specific increases in consumption for some of your products as a result of COVID-19.

Frank Schulkes: I cannot give you precise numbers. I think during the presentation we gave you some directions. As you heard, in Wound in fact we had a negative impact of COVID-19. It was modest so there is not too much stocking going on there. If you look at the Ostomy Care business with a growth that was 9.5% or just over 7% excluding the rebate, we estimate that the underlying growth was approximately in line with historical levels of low single-digit. However, it was a pretty sizeable portion there related to COVID-19 and we expect that a lot of that was indeed customers, as well as patients by the way, upping their stock levels. Our estimate is probably a 50:50. I think about patient stocking as follows. Normally a patient would, for instance, order one month of supply. In today's environment they probably order 2-3 months of supply. That is how we have to think about that. In terms of stocking activity in Ostomy Care more than probably with some of the other business units, with Wound the other way around. Then finally I would say in the Critical Care business that is really a combination of really higher usage of our products because a lot of our critical care products are used in the ICU. A lot of these are respiratory type products for instance. We expect that a sizeable part of that growth there was driven by actual underlying environment in terms of usage, plus additional stocking as well.

Alex Gibson: Okay, regarding both of those impacts, do you see the stocking and the consumption accelerating in the early part of Q2? Is that what you are seeing today? Or do people feel that they have the right level of inventories and now it is more back to their normal consumption? Then the demands in the ICU products, are you seeing that as well?

Karim Bitar: Alex, I think we do not know is the honest answer. I think it is premature to draw those conclusions. I think what is fair to say, as Frank highlighted, there has been some stocking that has been occurring. There has been some real demand and those variables need to play themselves out in the future.

Alex Gibson: Okay. Then my second question would be thinking around your guidance and the assumptions that you are embedding in them around a magnitude of decline in Advanced Wound Care and then the offset from the stocking and COVID-specific demand. Do you actually factor these in today? Do you have explicit assumptions in where you see those moving? Or is it you are maintaining your guidance now and you want to wait until Q2, for example, to see how the peaks and troughs are netting out in the business? How are you coming up with that guidance today?

Frank Schulkes: Based on what we can see today and how we are assessing the business going forward we indeed are still operating within those parameters of guidance. As we said in the call so far, we are expecting a decline in demand in the Wound business specifically in the second and third quarter. We have factored a certain level of decline reduction into these numbers. At the same time we also said our critical Care business, our Continence business as well as our Infusion Care business are continuing to perform well. We do not see any material changes there. That is how we have modelled our 2020. Again, we are still operating within the parameters. At the same time, just to be clear, we are acknowledging that there is more risk and uncertainty. If things materially change of course we will provide an update.

Alex Gibson: Okay, thanks for taking my question.

Sebastian Walker (UBS): Thanks for taking the question. First, cost inflation in things like freight costs, material costs and what-not, can you comment on how manageable you think those are for the rest of the year in the context of your margin guidance?

Frank Schulkes: I think the overall cost inflation related to the categories you have mentioned are moving within a range that I would call manageable in terms of materiality for our business. We are of course following these types of commodity or rates very intensively. So far we have seen in freight rates an increase so there is going to be some additional cost in the year related to this. However, as I said before, it is still moving within a range that is not material and manageable for us within our guidance.

Sebastian Walker: Very clear. The second question probably as well for you, Frank, on working capital. What are you seeing in terms of receivables? Are those picking up materially? Are your customers still able to pay you? What is cash looking like on a day-to-day basis in April?

Frank Schulkes: As part of watching our liquidity we are looking at liquidity on a daily basis. On top of that we are also monitoring our receivables from three different angles and that is on a weekly basis. First and foremost of course, receivable levels, second we are looking at collection levels and third we are looking at past due levels. We put those in historical perspective because there is always a level of seasonality in those. So far we have not seen any change in trend line in any of these variables. Customers continue to pay us well. We do not see any changes there so far.

Sebastian Walker: Great, that is helpful. Then the last one, Karim, interested to hear your thoughts on the new normal that you are flagging. You talked about some structural changes around digital and interacting with customers. Are there any other structural changes that you see coming out of this that you as a business are preparing for?

Karim Bitar: We are in the midst of defining the new normal and I think it is a very dynamic and fluid situation. What is reasonable to assume is that when you think about customer engagement the balance of face-to-face versus more virtual and digital that balance is going to shift. I think we will see that not only in how we interface with our customers but also just the way we operate as a company. I think a lot of us have learnt the power of using applications like Teams or Zoon or Google Meet, whatever the case may be. You can really get a lot of work done and get a lot of functionality there. I think that the importance of being able to engage with customers both face-to-face but also through these platforms is going to increase. How you create that interaction is very, very important. As I said earlier, on the supply chain it is clear to me that the theme of efficiency will persist, the theme of quality will persist and health and safety will persist. However, the whole theme of resilience and how you ensure that your supply chain is resilient will become more and more important.

Then I think that implications for the innovation side of the business which are at the heart of this business, the whole R&D innovation engine, that was always incredibly important and in a certain sense as we mapped out the whole vision of pioneering trusted medical solutions to improve the lives we touch, we talked about solutions. We talked about our focus on really trying to weave together the whole aspect of the physical product with digital and service. I think we are learning from this experience that that is what folks are looking for. I look at, for example, our Home Service Group and the quality of service we are providing with 180 Medical is just phenomenal and the reactions we are getting there from customers and patients. We see that in how that business is performing. If you can weave digital service and devices together I think that the new normal will further accentuate or highlight the importance of that. Again, we are working through defining the new normal but I do think that there are implications for the front-end of the value chain, supply chain, the innovation side and then how we operate in the office environment typically, say in areas like finance or legal or HR or IT. I hope that answers your question.

Sebastian Walker: Yes, that is great. Thanks, Karim, thanks Frank.

Christian Glennie (Stifel): Good morning, a couple of questions please. On Advanced Wound Care and the headwinds and risks around that. I would appreciate some greater insight and characterisation of that potential headwind. Maybe in terms of if you know what proportion either in value or volume or portfolio terms is used in elective surgeries, that would be helpful. Presumably also you are seeing an impact from reduced A&E visits, obviously outside of COVID-related issues as well. Any greater insight into that potential headwind would be great.

Frank Schulkes: When we look at the Wound Care business and how you can characterise the impact of COVID-19 into Wound is the following. Of course a part of our business which is really the surgical segment is highly correlated to elective type of procedures and as you probably have read elective procedures are pretty significantly down in the US for instance. That business is less than 20% of the total Wound Care business but there will be a significant impact in that specific segment in Q2 and Q3. Beyond that there are also lower hospital visits, for instance. There are lower visits to wound clinics and that also impacts the chronic side of Wound which is a bigger part of the overall Wound business. Of course, it is not as dramatic as elective surgeries coming down but there is a negative impact that we estimate in the rest of the year. That will also have a negative impact on the Wound business in the second and third quarters.

Christian Glennie: Okay, thank you, that is helpful. Then the other piece was on any noticeable pricing changes in the first quarter?

Frank Schulkes: No, nothing beyond what we already have communicated. Of course the French price impact as a result of the reimbursement cut last year which was about 5%, is playing out in the first quarter as well as in the second quarter. Then it will normalise in the second half. That is what we see. As we discussed earlier, there are always some reimbursement cuts in certain parts of the world. Overall these types of reimbursement cuts are all part of our overall sort of envelope of price erosion that we see on an annualised basis of about 1-1.5% in total. Within that 1-1.5% it will be the Wound business takes a bigger portion than some of the other businesses.

Christian Glennie: Okay, that is great, thank you.

Craig McDowell (JP Morgan): Good morning, thanks for taking my questions. The first one, if you give any indication based on the mix that you are currently seeing and the trends that you are pointing to in Advanced Wound Care, implications on gross margin for the first half and the full-year if possible.

Frank Schulkes: We typically do not comment on specific mix changes within a business unit so I prefer not to comment. I can give you some insight in how we look at the rest of the year from a business unit point of view. Second, it is premature to talk about implications for gross margin. When we are doing our first half results we will of course talk about that in more detail. Overall what you can say though is when you look at the construct for the year, as we said, we expect that the Wound business will decline in the second and the third quarter. As you know, the Wound business carries a high gross margin relative to some other business units so there will be a negative impact on mix in the rest of the year for our total business. That will be reflected in EBIT of course. That is all part of our overall construct that we laid out.

Craig McDowell: Great, thank you. Secondly, you commented on moderately lower investment in 2020 compared to previous guidance. Can you give any indication about where that lower investment would fall? Would it be in the recurring opex, the one-off opex or perhaps the capex? Any kind of indication that would help with modelling. Thank you.

Frank Schulkes: Yes, I think looking at of course the portfolio assessment that we are doing, as we said, some projects are going to be accelerated. We talked about that the majority will continue and some will be deferred. The ones that will be deferred are in the area of, for instance, sales force increases and they will be delayed in certain markets. Therefore I think by default we will see an impact in recurring opex line specifically.

Craig McDowell: Thank you.

Paul Cuddon (Numis): I have two please. Your comments on the stocking have been helpful but I wonder to what extent your customers and particularly new customers in new markets have been providing opportunities for ConvaTec to diversify the customers supply. New customer demand, please.

Karim Bitar: What I would say on new customer demand that persists. We are always looking at what are the new patient starts. Now, obviously with certain geographies and certain marketplaces maybe having more limited access to healthcare settings you may see in terms of new customer starts not putting downward pressure. On the other hand the countervailing element is that if you actually have the capability to serve folk in what I will call much more of a virtual or remote manner, frankly some of the competition may not be able to do that as well. That creates an opportunity to increase the new patient starts. What I would say, Paul, is right now there is a balance. There certainly are new patient starts, and we could go through all the various categories, so it is a little bit of a balancing act as to how much of it is on the plus side and how much of it is on the minus side. Then on the minus side how long will that last, this limitation to communal access to points of care.

Paul Cuddon: Okay, thank you. That brings me onto home distribution groups. I wonder how the net promoter scores are holding up through Q1 and also to help clarify your go-to-market strategy in Europe for the Home Distribution Group.

Karim Bitar: First of all, it is the Home Service Group and fundamentally it is really a surface enterprise now. There is the ability to go ahead and deliver physical products to patients and we do all this interface with healthcare professionals. That business unit really was set up very much with the goal of being leveraged on a global basis and it is a global business unit. The Home Service Group have an arm which is the medical team which is in the United

States. However, it also now has responsibility for what we have historically called Amcare which is a similar business here in the UK. The bottom line is we are trying to understand and ascertain how the Home Service Group leverages its capabilities both from a geographic vantage point and from a category vantage point. I would say that the business performs very, very well. Frankly, the net promoter scores continue to be very, very high and there is a high degree of satisfaction with our customer base. That business is run very, very well.

Paul Cuddon: Thank you.

Veronika Dubajova (Goldman Sachs): Good morning, thank you guys, most of my questions have been answered already but two quick ones from me. I do not know, Frank, if you are willing to comment a little bit on what you see as the likely magnitude of decline in Wound Care in Q2 and I was intrigued to hear your comment about the third quarter also being down. Maybe help us understand what is driving your assumptions on that. Then my second question is the very boring modelling question. FX is mark-to-market. I guess it would be helpful maybe for you to comment on margins in particular given how currencies have moved. Thank you.

Frank Schulkes: On Wound, we are indeed based on what I have described in one of the earlier questions, given that the electives are down as well as hospital visits are down and we see also this is not happening in every country at the same time. Therefore we expect a decline in the Wound business in the second quarter as well as in the third quarter. We are not providing a specific amount to that but you can imagine the Wound business is our largest business unit so the impact on overall Group is going to be material in that sense. Going back to the first part, we expect this to last for a couple of quarters and we are modelling that things might get back to normal levels in the fourth quarter. At the same time things are very fluid. Things are changing on a day-to-day basis so we are watching of course the markets very carefully and we will respond accordingly.

On the foreign exchange so far the FX impact in margin rate has been limited. It is not a positive but on the rate it has been a limited impact. In terms of borrowed amounts we have seen a modest loss in terms of multifunctional type of assets for payables revaluation impacts. However, it is of course going up and down, as you understand with the foreign exchange market, but we have seen a modest loss so far.

Veronika Dubajova: That is very helpful, thank you.

Mark Reynolds: One question that has come through on the webcast is, could you please give us some further colour on the supply chain reinforcement initiatives that you have undertaken and any adaptations you have had to make in that environment?

Karim Bitar: On the supply chain what we have really done is to focus on three key vectors. Vector number one has been all about testing and diagnostics, vector number two has been all about social distancing and vector number three has really related to personal hygiene. What we are doing across all of our sites is we are carrying out consistently temperature testing of all of our employees. We are also frankly doing that in our offices where we have them still functioning or still open.

In regard to social distancing we have made a whole series of changes there. For example, the distance when walking down hallways or corridors, staying in manufacturing sites so distances are being kept in warehouses. When you look at distancing, for example in cafeteria, there is literally designated areas where you can sit so you are obviously avoiding people sitting face-to-face. It is much more of a diagonal configuration. A tremendous amount of work is being done on social distancing. Shuttles that are being used to move employees, whether they be in Mexico or whether they be in the Dominican Republic or Slovakia, adding capacity there to ensure that there is social distancing when our employees are travelling to and from home. On the personal hygiene side, again looking at all the various practices, for example, literally going ahead and certifying our operators as to how to go ahead and wash your hands, with what frequency and having a whole training programme around that. There is really a myriad of interventions and we are really driving implementation and consistency of this on a global basis.

Now, to some degree we have also adjusted in the sense that the guidelines and guidance that you get from the regulator are going to vary whether you are in Slovakia, whether you are in the UK, whether you are in Mexico, whether you are in Denmark, whether you are in the Dominican Republic, whether you are in Belarus etc. However, by and large I would say that we have intervened very, very proactively and at least up to this point, knock on wood, it has really kept us in good stead. I hope that helps.

Mark Reynolds: A couple of question from the webcast. Does the COVID-19 situation mean that efforts to rejig the portfolio and potential asset sales are on hold for now?

Karim Bitar: I think we are always looking at the configuration of our portfolio and that is always a dynamic situation. I would say we have been very, very clear as to what the businesses are that we are focused on. We have highlighted that Advanced Wound Care is absolutely core, Ostomy Care is absolutely core, Continence Care is absolutely core and Infusion Care is absolutely core. We have highlighted that we focused on now 12 key markets and we have given particularly important to China and the USA. That does not change. In fact that continues to be the case. Then obviously you have seen our new operating model which is really based on a configuration of six business units which are a lot more customer-centric, a lot more agile and a lot more accountable. Then flanked by enhancing our capabilities on the supply chain and quality and flanked by elevating the importance of innovation and R&D. I would say that continues to be the case.

Mark Reynolds: Thanks, Karim. There is one further question on the call and then I think we can wrap up.

Sebastian Walker (UBS): Thanks for taking the follow-up. Expanding on that last question, the Critical Care business and the products within that seeing elevated demand, could you maybe comment how much of the portfolio they typically represent and whether this changes your thinking at all in terms of the willingness to invest in Critical Care and expectations on structural demand going forward?

Karim Bitar: The Critical Care business is a valuable business and frankly in a post-COVID-19 world clearly the value of that business has increased. Frank alluded to that. If you look at our portfolio, for example demand for our oxygen masks really increased. Demand for cannulas for intubation has really increased. We have products in the area of faecal management system which has increased. Our basic philosophy has been very much to focus on what is in the best interest of the patients and what is in the best interest of caregivers.

Frankly, we have been increasing our investment there, trying to go ahead and meet the demand requirements the marketplace is placing on us. We think that is societally the right thing to be doing in this COVID-19 context or situation because there are patients and caregivers that are really relying on us and counting on us. I think from a core value perspective that is really, really important to us. We review that business. We assess that business. It is growing which is a positive. We expect it to continue to grow and so what I would say, Sebastian, is it is a dynamic situation and we are always assessing, analysing and evaluating. We are appreciative of the fact that that business continues to grow and we are providing it with the appropriate support and investment to ensure that it is meeting the needs of the patients out there.

Sebastian Walker: Great, thanks very much.

Mark Reynolds: Super, thank you, Karim. As ever, if anybody has any further questions then please do contact the IR team at ConvaTec. Otherwise, I think we can bring it to a close.

Karim Bitar: Super. I would just say again, thank you to everybody for having joined us on this call and hopefully you got a sense that Q1 performance was robust. At the same time we have tried to highlight to you that full-year risks have increased due to COVID-19. We will continue to keep you abreast but thanks again for the continued interest in ConvaTec. We appreciate your support. Have a wonderful day.

[END OF TRANSCRIPT]