

# 2020 Interim Results & Update on Strategic Transformation

6 August 2020

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Unless otherwise stated all stated financial metrics in this presentation are adjusted; for a full definition of the adjustments made please refer to the Financial Review in the full year results statement.

# Hosts and agenda



Frank Schulkes  
Chief Financial Officer

## 1. Financial review



Karim Bitar  
Chief Executive Officer

## 2. Update on Strategic Transformation

# 1. Financial review

Frank Schulkes,  
Chief Financial Officer

## Financial results – Solid first half performance

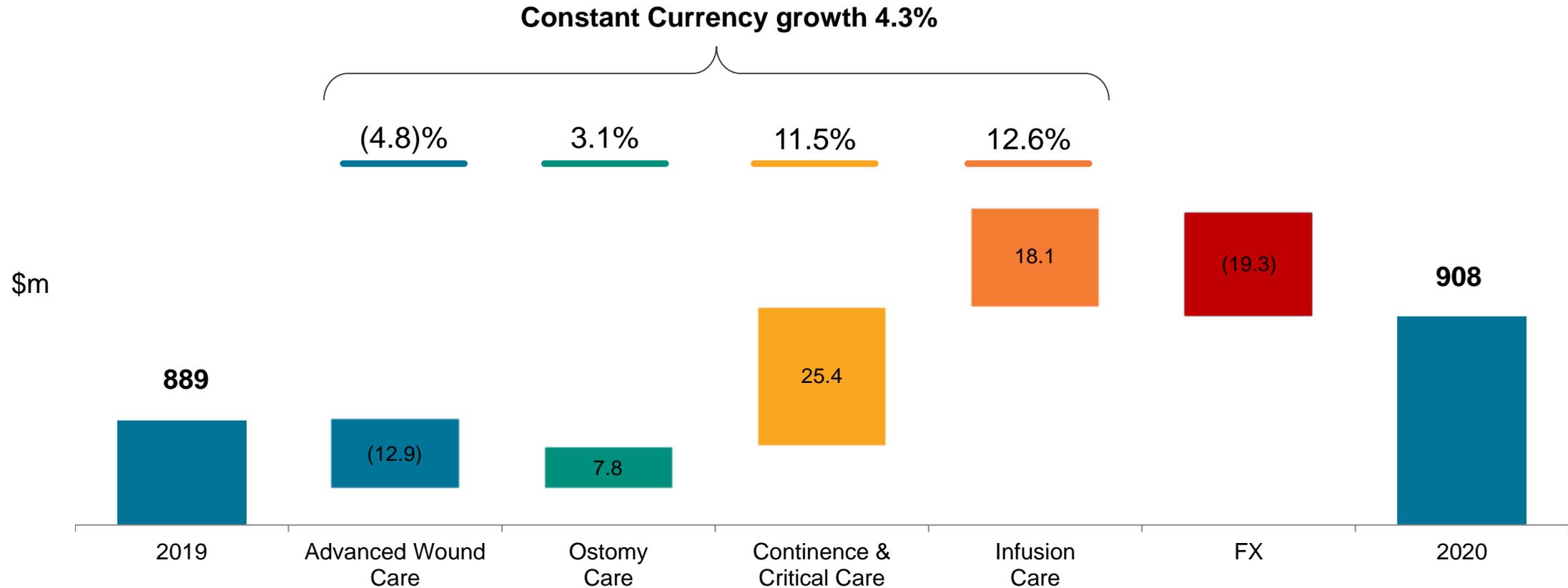
	2020	2019	Reported growth	Constant currency growth	Comments
<b>Revenue</b>	\$908m	\$889m	2.1%	4.3%	<ul style="list-style-type: none"> <li>\$19m FX headwind, \$1.9m M&amp;A contribution</li> </ul>
<b>Gross margin<sup>1</sup></b>	60.0%	58.6%	140 bps	100 bps	<ul style="list-style-type: none"> <li>+60 bps operational, +40 bps FX tailwind, +40 bps rebate provision</li> </ul>
<b>Opex<sup>1</sup> % revenue</b>	40.0%	40.0%	-		<ul style="list-style-type: none"> <li>Investment in strategic transformation and MDR</li> <li>Temporarily lower underlying operating expenses run-rate</li> </ul>
<b>EBIT<sup>1</sup></b>	\$182m	\$165m	10.0%	9.3%	<ul style="list-style-type: none"> <li>Improved gross margin</li> </ul>
<b>EBIT margin<sup>1</sup></b>	20.0%	18.6%	140 bps	90 bps	
<b>EPS<sup>1</sup></b>	\$0.06	\$0.06	8.9%		<ul style="list-style-type: none"> <li>Growth broadly in line with earnings</li> </ul>
<b>Dividend per share (\$ cents)</b>	1.7 cents	1.7 cents			<ul style="list-style-type: none"> <li>Interim dividend declared in line with prior year</li> </ul>
<b>Cash conversion<sup>1, 2</sup></b>	73%	90%			<ul style="list-style-type: none"> <li>Continued robust cash conversion, prior year benefited from favourable inventory movements</li> </ul>
<b>Net Debt / EBITDA<sup>1, 3</sup></b>	2.2x	2.6x			<ul style="list-style-type: none"> <li>Leverage down</li> </ul>

<sup>1</sup> Results are adjusted unless otherwise stated. A reconciliation of adjusted to reported results is in the appendix on pages 26 and 27

<sup>2</sup> Cashflow (Adjusted EBITDA – capex – net change in working capital / Adjusted EBITDA). See slide 9

<sup>3</sup> Last 12 months adjusted EBITDA of \$462m (2019: \$ 443 million)

# H1 2020 revenue – Overall demand resilient, but mixed



- Reported revenue increased 2.1%, up 4.3% in constant currency
- \$19m currency headwind, principally Euro and GBP
- Net M&A contribution of \$1.9m<sup>2</sup> included in Continenence & Critical Care

<sup>1</sup> Constant currency growth

<sup>2</sup> Southlake Medical Supplies acquired 1 October 2019

# AWC & OC - Impacted by reduced volumes and customer stocking activity

## Advanced Wound Care

HY 20 (4.8)%<sup>1</sup>  
Q2 20 (13.2)%<sup>1</sup>

- Significant declines in elective surgeries and lower chronic volumes due to fewer hospital and wound clinic visits, as expected
- Good growth in key Latin American markets offset by declines elsewhere
- AQUACEL™ Ag+/Advantage performed well, pressure on the legacy portfolio remained

## Ostomy Care

HY 20 3.1%<sup>1</sup>  
Q2 20 (2.7)%<sup>1</sup>

- Modest growth in the first half against a weak prior year
- Q2 impacted by partial reversal of customers' inventory building in Q1
- Solid performances in key emerging markets e.g. China, Brazil and Colombia

<sup>1</sup> Constant currency growth

# CCC & IC - Robust growth, strong COVID-19 related demand for Critical Care

## Continence & Critical Care

HY 20 11.5%<sup>1</sup>  
Q2 20 12.0%<sup>1</sup>

- COVID-19 related demand provided tailwind to Critical Care
- Good performance from Home Services Group continues
- GentleCath™ Glide growing strongly

## Infusion Care

HY 20 12.6%<sup>1</sup>  
Q2 20 12.6%<sup>1</sup>

- Strong performance in growing insulin pump market
- Continued strong growth in new Mio™ Advance

<sup>1</sup> Constant currency growth

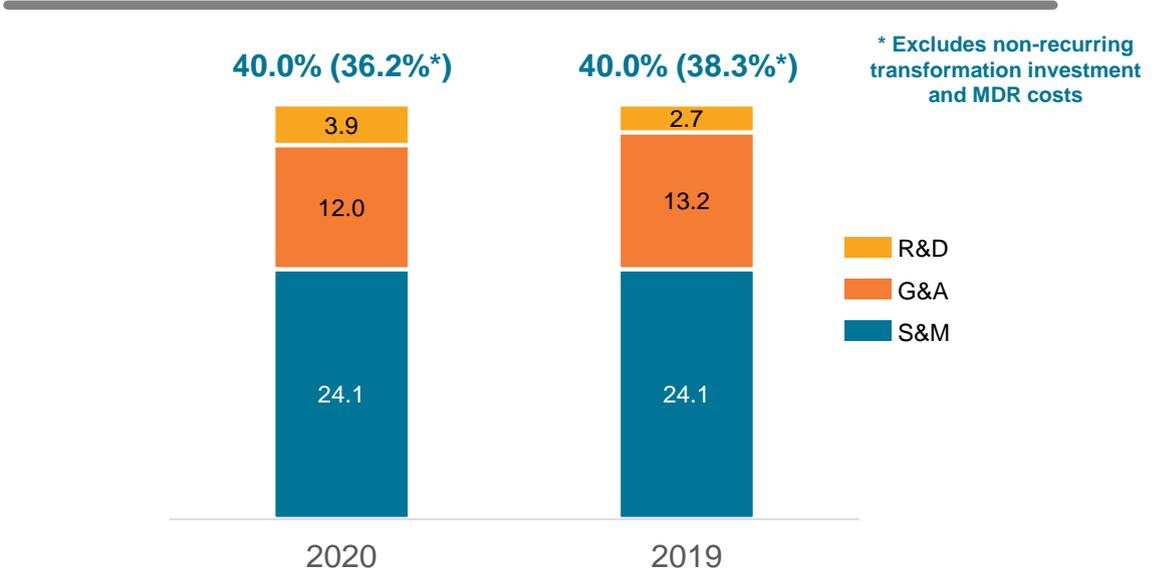
# Margin & Opex review – Continuing to invest in strategic transformation

## Gross margin<sup>1</sup> rate %



- Prior year rebate provision (+40 bps) and FX movements (+40 bps) provide tailwinds
- Operational (+60 bps) as positive net productivity gains more than offset modest price / mix headwinds

## Opex<sup>1</sup> % of revenue



- Investment in non-recurring transformation of \$25m up \$11m from 2019 with MDR at \$9m, up \$8m
- Recurring transformation investment of appr. \$16m
- Material temporary lower opex run-rate as result of COVID-19 circumstances and cost management

<sup>1</sup> Results are adjusted unless otherwise stated. A reconciliation of adjusted to reported results is in the appendix on pages 26 and 27

# Cash and leverage - Robust cash generation and lower leverage

## Adjusted Cash Flow (\$m)

	H1 2020	H1 2019
EBITDA <sup>1</sup>	223	205
Capex	(36)	(31)
Δ NWC	(24)	10
Free cash flow <sup>4</sup>	163	184

## Net Debt

	30 Jun 2020 (\$m)	31 Dec 2019 (\$m)	30 Jun 2019 (\$m)
Long-term borrowings <sup>2</sup>	(1,489)	(1,486)	(1,588)
Cash and cash equivalents	451	386	376
Net Debt	(1,038)	(1,100)	(1,212)
<b>Net Debt / EBITDA<sup>1,3</sup> (x)</b>	<b>2.2</b>	<b>2.5</b>	<b>2.6</b>

- 73% adjusted cash conversion (H1 2019: 90%)
- Leverage continues to decline

<sup>1</sup> Results are adjusted unless otherwise stated. A reconciliation of adjusted to reported results is in the appendix on pages 26 and 27

<sup>2</sup> Carrying value of total interest bearing liabilities excluding finance lease obligations

<sup>3</sup> Last 12 months adjusted EBITDA of \$462m (2019: \$ 443 million)

<sup>4</sup> Cash generated from operations, net of PP&E

## H2 revenue and opex driving EBIT reduction versus H1

### Revenue

Lower growth

- Advance Wound Care growth expected to remain negative in H2
- Ostomy Care growth expected to be lower than H1
- Critical Care growth expected to normalise in H2

### Opex

Higher operating expenses

- Strategic transformation investment will increase
- Expect H1 temporary lower opex run-rates to start reversing

### Strategic investment

Proactive rephasing

- Recurring transformation opex in 2020 expected to be between \$50 million and \$55 million (previously between \$60 million and \$65 million)
- Annual gross benefits in 2021 expected to be between \$130 million and \$150 million (previously between \$150 million and \$170 million)

## 2. Update on Strategic Transformation

Karim Bitar,  
Chief Executive Officer

**Transforming by  
Pivoting to Sustainable and Profitable Growth**

# The strategic transformation focuses on five pillars to Pivot to Sustainable and Profitable Growth

**Vision:** Pioneering trusted medical solutions to improve the lives we touch



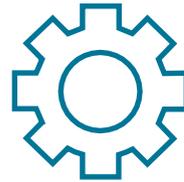
## **F**ocus

on key markets and categories



## **I**nnovate

in our work and trusted solutions



## **S**implify

our organisation



## **B**uild

core capabilities



## **E**xecute

with excellence



- Rationalising the portfolio across products and markets



- Divesting Skin Care business – expect to complete in Q3



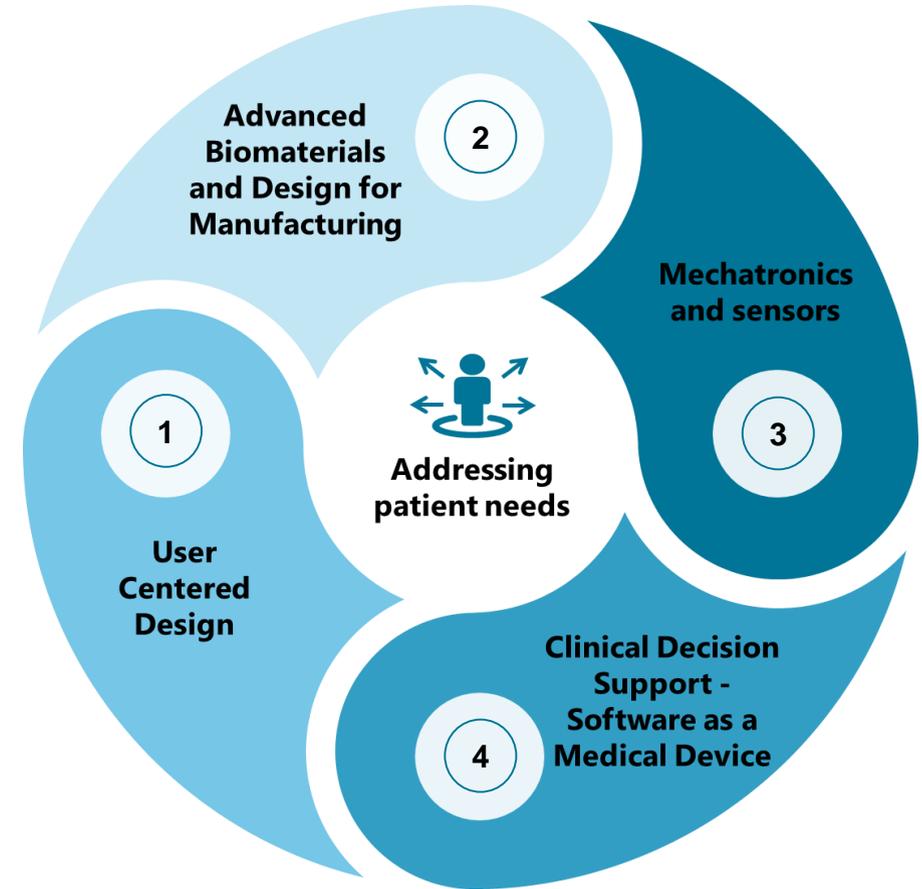
- Exiting markets and serving more markets indirectly

## New ConvaTec Innovation Centre in Boston, USA

- Opened in Q1 2020; in addition to existing R&D centres in UK and Denmark
- Improves access to top talent and leading healthcare and technology partners, in key US market

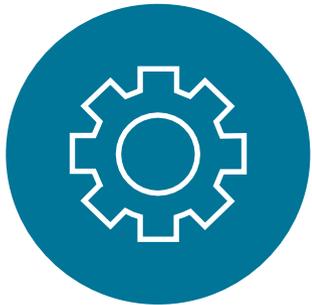
## Building core platform capabilities

### Kendall Square, Boston Company Map



## Global Business Services (“GBS”)

- Based in Lisbon, successfully went live in May
- Majority of recruitment and onboarding carried out virtually
- Starting to deliver improved service and efficiency in IT and finance





## Salesforce Excellence

- Areas of focus
  - Global CRM
  - Business analytics
  - Training
  - Incentives



## Digital Marketing Innovation

WoundCon, Global Professional Education – May 2020



- Approx. 1,300 participants from more than 70 countries
- Benefits
  - Fast and efficient to deploy
  - Global reach
  - Measurable outcomes

### Implementing over 100 initiatives across the value chain

- Measurable impact
- Instilling execution culture



### Supply Chain cost reduction

- Reduced cost of foil packaging material 18%
- Annual savings of \$1.2m
- Improved storage, transportation and shelf life from 2, to 3 years



### Digital Engagement - China

- Improved interaction with patients and HCPs
- Leveraging e-commerce, webinars, digital advertising, online patient support, and virtual congresses

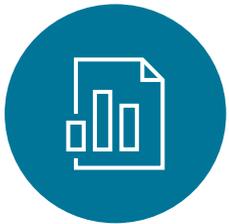


# Summary and Outlook



## Solid first half performance

- Grew revenue and earnings
- Interim dividend declared in line with prior year



## Steady progress with strategic transformation while responding to COVID-19 challenges



## 2020 outlook maintained: uncertainty due to COVID-19

- Constant currency revenue growth: 2.0% to 3.5%
- Constant currency adjusted EBIT margin: 16.0% to 18.0%<sup>1</sup>

<sup>1</sup> A reconciliation of adjusted to reported results is in the appendix on pages 26 and 27

# Q&A



**Natura™** ⊕



**AQUACEL™** Ag+  
Dressings

**FoamLite™**  
ConvaTec

**AQUACEL™** Ag.  
Advantage

**Ayelle™**

**neria™**

**GentleCath™** Glide

**ESTEEM™** ⊕ Flex Convex



# Appendix

# Transformation investments and benefits

## Now

**Total: c.\$210m**

- Cost: \$145m to \$155m
  - \$30m to \$35m excluded from adj. EBIT
- Capex: \$60m to \$65m

**Non-recurring investment**

**c.\$75m pa by 2021**

**Recurring annual investment**

**\$130m to \$150m pa by 2021**

**Annual gross benefits**

## Previously

**Total: c.\$210m**

- Cost: \$140m to \$150m
  - \$35m to \$40m excluded from adj. EBIT
- Capex: \$60m to \$65m

**c.\$75m pa by 2021**

**\$150m to \$170m pa by 2021**

## Strategic transformation investments and MDR costs

All figures in \$m	H1 2019	FY 2019	H1 2020	FY 2020
Non-recurring opex investment <sup>1</sup>	14	39	25	50-55
Non-recurring capex investment	-	23	12	c.30
Non-recurring adjusted items	-	4	6	20-25
Recurring opex investment <sup>2</sup>	-	12	16	50-55
MDR <sup>3</sup>	1	5	9	c.20

<sup>1</sup> Largely G&A

<sup>2</sup> Largely S&M

<sup>3</sup> All R&D

# Quarterly revenue performance

Quarterly reported revenues by franchise

	2019				2020	
\$m	Q1	Q2	Q3	Q4	Q1	Q2
<b>AWC</b>	130	142	148	151	132	119
<b>Ostomy Care</b>	120	133	132	141	128	124
<b>C&amp;CC</b>	108	112	115	120	119	125
<b>ID</b>	73	71	68	63	81	80
<b>Group</b>	<b>431</b>	<b>458</b>	<b>463</b>	<b>475</b>	<b>460</b>	<b>448</b>

Values may not sum due to rounding

# Quarterly revenue performance

Quarterly reported revenues by region

	2019				2020	
\$m	Q1	Q2	Q3	Q4	Q1	Q2
Americas	221	241	247	250	253	240
EMEA	177	181	180	186	175	172
APAC	33	36	36	39	32	36
Group	431	458	463	475	460	448

Values may not sum due to rounding

## Exchange rate sensitivity

- ConvaTec's geographic profile can lead to transactional currency impacts.
- We monitor key rates against the US dollar.
- 30<sup>th</sup> June 2020 spot rates would indicate a \$6-7m gain on revenue and negligible impact on adjusted EBIT compared with average FY19 rates

	<b>FY 2019 Average</b>	<b>FY 2019 Closing</b>	<b>Spot @ 30 Jun. 2020</b>	<b>Sales Sensitivity<sup>1</sup> \$m</b>	<b>Adj. EBIT Sensitivity<sup>1</sup> \$m</b>
Euro	1.12	1.12	1.12	4.1	2.1
GBP	1.28	1.33	1.24	1.6	(1.6)
DKK	0.15	0.15	0.15	0.3	(0.7)

<sup>1</sup> Impact on sales/adjusted EBIT based on a 1% weakening of the USD

## Reconciliation of 2020 reported earnings to adjusted earnings

	Revenue	Gross profit	Operating costs	Operating profit	Finance costs, net	Non-operating expense, net	PBT	Taxation	Net profit
Six months ended 30 June 2020	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<b>Reported</b>	<b>908.0</b>	<b>491.6</b>	<b>(378.6)</b>	<b>113.0</b>	<b>(26.3)</b>	<b>(5.2)</b>	<b>81.5</b>	<b>(22.4)</b>	<b>59.1</b>
Amortisation of pre-2018 acquisition intangibles	—	53.3	9.1	62.4	—	—	62.4	(4.9)	57.5
Termination benefits and other related costs	—	—	6.4	6.4	—	—	6.4	(1.2)	5.2
Total adjustments and their tax effect	—	53.3	15.5	68.8	—	—	68.8	(6.1)	62.7
<b>Adjusted</b>	<b>908.0</b>	<b>544.9</b>	<b>(363.1)</b>	<b>181.8</b>	<b>(26.3)</b>	<b>(5.2)</b>	<b>150.3</b>	<b>(28.5)</b>	<b>121.8</b>
Software and R&D amortisation				3.9					
Post-2017 acquisition amortisation				1.0					
Depreciation				29.2					
Write-off of property, plant and equipment				0.3					
Share-based payments				7.2					
<b>Adjusted EBITDA</b>				<b>223.4</b>					

# Reconciliation of 2019 reported earnings to adjusted earnings

	Revenue	Gross profit	Operating costs	Operating profit	Finance costs, net	Non-operating expense, net	PBT	Taxation	Net profit
Six months ended 30 June 2019	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<b>Reported</b>	<b>888.9</b>	<b>459.2</b>	<b>(365.6)</b>	<b>93.6</b>	<b>(32.1)</b>	<b>(0.2)</b>	<b>61.3</b>	<b>(16.8)</b>	<b>44.5</b>
Amortisation of pre-2018 acquisition intangibles	—	61.7	8.5	70.2	—	—	70.2	(5.1)	65.1
Termination benefits and other related costs	—	—	1.4	1.4	—	—	1.4	—	1.4
Total adjustments and their tax effect	—	61.7	9.9	71.6	—	—	71.6	(5.1)	66.5
<b>Adjusted</b>	<b>888.9</b>	<b>520.9</b>	<b>(355.7)</b>	<b>165.2</b>	<b>(32.1)</b>	<b>(0.2)</b>	<b>132.9</b>	<b>(21.9)</b>	<b>111.0</b>
Software and R&D amortisation				4.7					
Post-2017 acquisition amortisation				0.5					
Depreciation				28.2					
Share-based payments				6.1					
<b>Adjusted EBITDA</b>				<b>204.7</b>					