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# Coloplast A/S (CLPBY.DK)

Q1 2024 Earnings Call

## CORPORATE PARTICIPANTS

**Kristian Villumsen**

*President & Chief Executive Officer, Coloplast A/S*

**Anders Lonning-Skovgaard**

*Chief Financial Officer & Executive Vice President, Coloplast A/S*

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## OTHER PARTICIPANTS

**Jack Reynolds-Clark**

*Analyst, RBC Europe Ltd.*

**Hassan Al-Wakeel**

*Analyst, Barclays Investment Bank*

**Robert J. Davies**

*Analyst, Morgan Stanley & Co. International Plc*

**Veronika Dubajova**

*Analyst, Citigroup Global Markets Ltd.*

**Lisa Bedell Clive**

*Analyst, Bernstein Autonomous LLP*

**Anchal Verma**

*Analyst, JPMorgan Securities Plc*

**Christian Sørup Ryom**

*Analyst, Danske Bank A/S*

**Julien Dormois**

*Analyst, Jefferies GmbH (FR)*

**Marianne Bulot**

*Analyst, Bank of America*

**Mattias Häggblom**

*Analyst, Svenska Handelsbanken AB \*

**Maja Stephanie Pataki**

*Analyst, Kepler Cheuvreux SA (Switzerland)*

**Richard Felton**

*Analyst, Goldman Sachs International*

**Niels Granholm-Leth**

*Analyst, Carnegie Investment Bank AB (Denmark)*

**Graham Doyle**

*Analyst, UBS AG (London Branch)*

## MANAGEMENT DISCUSSION SECTION

**Operator:** Ladies and gentlemen, thank you for standing by. Welcome and thank you for joining the Coloplast Interim Financial Statement for Q1 2023/2024 Conference Call. Throughout today's recorded presentation, all participants will be in listen-only mode. The presentation will be followed by a question-and-answer session. [Operator Instructions]

I would now like to turn the conference over to Kristian Villumsen, President and CEO. Please go ahead.

### Kristian Villumsen

*President & Chief Executive Officer, Coloplast A/S*

Good morning. Thank you, operator, and welcome to our Q1 2023/2024 conference call. I'm Kristian Villumsen, the CEO of Coloplast, and I'm joined by our CFO, Anders Lonning-Skovgaard and our Investor Relations team. We'll start like we usually do with a short presentation by Anders and myself, and then we'll open up for questions.

Could I ask you all to please turn to slide number 3? We delivered 8% organic growth and a reported EBIT margin before special items of 28%. Return on invested capital after tax and before special items was 15%, a level which reflects the full impact from the Kerecis acquisition and which we expect to be the trough. I'm satisfied with the solid start of the year. We continue to outgrow the market and help a lot more people with intimate healthcare needs.

Let me start the call today with a few highlights. We had a strong start in our Chronic Care businesses with both Ostomy Care and Continence Care delivering 8% organic growth. In Continence Care, we're starting to see positive impact from Luja, our new male intermittent catheter with a Micro-hole Zone Technology. The product is now available in 10 markets, with most recent launches over the last few months in the UK, the US and Germany.

The reception of the product across markets has been fantastic. Based on a recent survey, we know that 95% of healthcare professionals would recommend Luja to their patients, while 86% of users new to catheterizations have reported that they do not worry about urine left in the bladder when using Luja. These are very strong numbers.

Our newest member of the family, Kerecis, is also off to a good start, with 4% contribution to reported revenue growth in Q1, in line with expectations. The underlying business growth was around 35%, reflecting continued market share gains in the US.

And last but not least, we've now officially kicked off what I'll call the year of launches with the launches of Biatain Silicone Fit in Wound Care and Peristeen Light in Bowel Care.

Biatain Silicone Fit is a new silicone foam dressing for pressure injury prevention and wound management launched in January 2024 in the US. This is a strategic product launch that strengthens our advanced dressings portfolio with a US-specific offering. And to reach the full potential of the launch, we have also now invested in a dedicated US wound care organization. As such, with the launch of Biatain Silicone Fit and the expansion of our US wound care salesforce, we're well positioned to build a meaningful presence in the world's largest Advanced Wound Care market.

Peristeen Light is a new low-volume transanal irrigation device in Bowel Care, which is designed for ease of use. Bowel Care is a subsegment of our Continence Care business and today, it's an area where many patients remain untreated. With the launch of Peristeen Light, we aim to expand the addressable market and help more people with bowel dysfunction by making transanal irrigation an option for more patients. The product will be launched in markets across Europe over the next 12 months and it's expected to support continued good growth in our Bowel Care business.

Now, let's take a look at today's results in a bit more detail. Please turn to slide number four. In Ostomy Care, organic growth was 8% for the first quarter and growth in Danish kroner was 5%. Our SenSura Mio portfolio was the main growth contributor, followed by the broader range of supporting products. Our SenSura and Assura/Alternia portfolios continued to contribute to growth in emerging markets.

From a geographical perspective, growth in the quarter was driven by broad-based contribution across emerging markets as well as Europe, mainly driven by the UK. The Ostomy Care business in China posted mid-single digit growth in Q1, in line with expectations. Growth was driven by a strong quarter in the hospital channel and the double-digit increase in inflow of new patients, while the consumer channel remained impacted by lower average value per patient and a bit of consumer sentiment.

In Continence Care, organic growth was 8% for the first quarter, with growth in Danish kroner of 4%. Growth in the quarter was driven by solid momentum in intermittent catheters across the SpeediCath portfolio with good contribution from both compact, standard and flexible catheters. Luja, our new male intermittent catheter, also contributed to growth in Q1. Our two smaller segments in Continence Care, Bowel Care and Collecting Devices, both also contributed to growth.

On a geographical perspective, all regions contributed to sales growth in Q1 led by Europe, driven primarily by Germany and France. Markets where reimbursement has been recently established or improved such as Poland, Australia, Japan and South Korea all continued to perform well and all grew double digit.

Voice & Respiratory Care posted 7% organic growth for the first quarter, with growth in Danish kroner of 6%. Both laryngectomy and tracheostomy posted high-single digit growth in Q1. Growth in the quarter includes negative impact from rationalization of noncore, low-margin products.

Growth in laryngectomy was driven by an increase in the number of patients served in existing and new markets, as well as an increase in patient value driven by the Provox Life portfolio. Growth in tracheostomy was driven by continued solid demand and positive impact from forward integration in both European markets and the US.

From a geographical perspective, all regions contributed to growth led by Europe.

In January, we achieved a significant milestone in China, where we made the first commercial sale of our voice prosthesis, enabling a laryngectomized patient to regain the voice. China is a good example of how Atos Medical can benefit from Coloplast's global footprint to the benefit of the many laryngectomized patients who until now did not have access to treatment.

The Atos Medical team is now able to utilize our well-established, best-in-class infrastructure and business support functions, enabling them to focus on building the standard of care and commercializing the portfolio to reach many more patients.

Finally, I'm also happy to say that in addition to the continued good performance in Voice & Respiratory Care, we also continue to make good progress on the integration of Atos Medical into the Coloplast infrastructure across key markets, allowing us to reap the anticipated synergies in 2023/2024.

Organic growth in Advanced Wound Care for the first quarter was 9% and growth in Danish kroner was 40%, which includes impact from the Kerecis acquisition. The Advanced Wound Dressings business grew 9% in the first quarter, which includes benefit from a lower baseline last year. Growth in the quarter was broad based, with solid contributions from Europe, especially Germany, the US and emerging markets led by China.

The Biatain Silicone portfolio continued to be the main growth contributor in the quarter. Kerecis' revenue amounted to DKK 229 million in Q1, with underlying revenue growth of around 35%. The hospital channel and surgical wounds were the main growth contributors, and Kerecis' operating profit margin, excluding PPA amortization, was around 10% in Q1.

In Interventional Urology, organic growth was 5% for the first quarter, up against the high baseline last year. Growth in Danish kroner was 2%. And Men's Health business in the US was the main growth contributor in the quarter, followed by the Endourology portfolio, including solid contribution from our first laser equipment, the Thulium Fiber Laser Drive.

On a geographical perspective, the US was the main growth contributor in Q1.

And with this, I'll now hand over to Anders, who will take you through the financials and outlook in more detail. Please turn to slide 5.

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## Anders Lønning-Skovgaard

*Chief Financial Officer & Executive Vice President, Coloplast A/S*

Thank you, Kristian, and hello, everyone. Reported revenue for the first quarter increased by DKK 501 million Danish kroner or around 8% compared to last year. Organic growth contributed DKK 459 million or around 8% to reported revenue. Acquired revenue contributed DKK 229 million to reported revenue for the first quarter or around 4%, reflecting three months impact from the Kerecis acquisition. Foreign exchange rates had a negative impact of DKK 187 million on reported revenue, mainly due to the depreciation of the US dollar and the Argentinian peso against the Danish kroner.

Please turn to slide 6. Gross profit for the first quarter amounted to DKK 4.5 billion, corresponding to a gross margin of 68% on par with last year. The gross margin was positively impacted by the inclusion of Kerecis, which contributed around 100 basis points. In addition, lower freight rates, price increases and baseline benefits of around 40 basis points from the Italian payback reform also had a positive impact from the gross margin. The positive development in the abovementioned factors was partly offset by raw material price increases, double-digit wage inflation in Hungary, and ramp-up cost at our manufacturing site in Costa Rica.

The gross margin also included negative impact from currencies of around 100 basis points. Operating expenses for the first quarter amounted to DKK 2.7 billion. The like-for-like increase in operating expenses, excluding inorganic impact from Kerecis was around DKK 88 million or 4% compared to last year. Kerecis contributed with DKK 222 million to operating expenses of which DKK 26 million in PPA amortization included under distribution costs. The distribution-to-sales ratio for the first quarter was 32% compared to 31% last year and includes impact from the Kerecis acquisition and an increased level of commercial activities.

The admin-to-sales ratio in the first quarter was 5% on par with last year, and was primarily impacted by the inclusion of Kerecis. The R&D-to-sales ratio for the first quarter was 4% of sales on par with last year. Overall, this resulted in an increase in operating profit before special items of 3% for the first quarter, corresponding to an EBIT margin before special items of 28% compared to 29% last year. The EBIT margin for the first quarter continued around 100 basis points negative impact from the inclusion of Kerecis in line with our expectations.

Currencies had a negative impact of around 120 basis points on the reported EBIT margin, mostly related to the depreciation of the US dollar and the Argentinian peso against the Danish kroner, as well as appreciation of the Hungarian forint against the Danish kroner. Financial items in the first quarter were a net expense of DKK 253 million compared to a net expense of DKK 334 million last year, driven mostly by interest expenses related to the financing of the Atos Medical acquisition, as well as losses on balance sheet items denominated mostly in US dollar and Argentinian peso.

The tax expense in the first quarter was DKK 342 million with a tax rate of 22% compared to a tax rate of 21% last year. The tax rate continued to include positive impact from the transfer of Atos Medical intellectual property to Denmark. As a result, the net profit before special items for the first quarter increased by 8% compared to last year. Diluted earnings per share before special items increased by 2% to DKK 5.45 and include impact from the equity raise in August 2023.

Please turn to slide 7. Operating cash flow for the first quarter amounted to DKK 1.8 billion, compared to DKK 487 million last year. The positive cash flow development was mainly driven by phasing of income tax paid, which benefited from the Atos Medical IP transfer. As communicated in November, following the IP transfer, there will be an extraordinary net tax payment of DKK 2.5 billion for full year 2023/2024, mostly impacting our second quarter.

Changes in working capital also had a positive impact on the cash flow, most driven by categorization trend in inventories as well as trade and other payables. Cash flow from investing activities was a net outflow of DKK 267 million at a similar level to last year. The CapEx-to-sales ratio was around 4% compared to around 5% in the first quarter last year. As a result, the free cash flow for the first quarter was an inflow of DKK 1.5 billion compared to an inflow of DKK 212 million last year. The trailing 12-month cash conversion for the first quarter was 87%. Net working capital amounted to around 26% of sales at the end of Q1 on top of last year. We continue to expect the net working capital to be around 25% in 2023/2024 and return to our long-term expectations of around 24% at the end of the strategic period.

Now, let's look – take a look at the guidance for 2023/2024 financial year. Please turn to slide number 8. The financial guidance on organic growth and EBIT margin for 2023/2024 are unchanged, and the assumptions laid out in November still hold. We continue to expect organic revenue growth of around 8%, which assumes continued good momentum during the year with growth across businesses and geographies in line with our Strive25 ambitions with the exception of China.

We now expect reported revenue growth in Danish kroner to be around 11% from previously around 12% impacted by currencies. Kerecis is still expected to contribute around 4 percentage points to the reported revenue growth. We continue to expect a reported EBIT margin before special items of 27% to 28%, which assumes a gross margin of around 68%. Prudent management of our operating expenses, negative impact from Kerecis of around 100 basis points, including around DKK 100 million in amortization charges. And finally, negative impact from currencies of around 50 basis points.

For 2023/2024, I still expect around DKK 50 million in special items related to the ongoing integration of Atos Medical. The net financial expenses for 2023/2024 are now expected at around minus DKK 750 million, impacted

mostly by losses on balance sheet items due to the devaluation of the Argentinian peso. Our effective tax rate is still expected to be around 22%, positively impacted by the transfer of the Atos Medical intellectual property. And CapEx guidance for 2023/2024 is unchanged at around DKK 1.4 billion and includes investments in establishing our new manufacturing site in Portugal.

With this, I will hand over to Kristian for final remarks. Please turn to slide 9.

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## Kristian Villumsen

*President & Chief Executive Officer, Coloplast A/S*

Thank you very much, Anders. So, we delivered a solid start of the year and once again showed the strength of our business model in Chronic Care significantly outgrowing the market. We continued with the launch of our new male intermittent catheter, Luja, which we expect will set a new standard of care in intermittent catheterization. And we kicked off a year of product launches with the launch of Biatain Silicone Fit and Peristeen Light and I look forward to continue expanding our product offering with new innovation in the coming quarters.

This was also the first full quarter with Kerecis where we continue to see strong growth and continued adoption of the fish-skin technology in the US. At the same time, the inflationary pressure we've been experiencing over the last several quarters continues to come down. Most recently, we've seen a positive development in the inflation levels in Hungary, now down to a single-digit level, as well as a positive trend in the electricity prices in Hungary.

In summary, I feel confident about our long-term growth prospects of 8% to 10% and returning to an EBIT margin of 30% by the end of the strategic period, excluding Kerecis. And also confident about an EBIT margin of more than 30% long term.

Finally, before we move to Q&A, I'd like to mention that we will host a meet the management event in Denmark on June 6 this year. At the event, you will have a chance to meet the broader management team and we'll give an update on the business and main strategic themes. We'll also host a dedicated session on Kerecis, which will be represented by its founder, Fertram Sigurjonsson and his team. We look forward to meeting many of you in person in June. And with that, thank you very much. Operator, we're now ready to take questions.



## QUESTION AND ANSWER SECTION

**Operator:** Ladies and gentlemen, at this time, we will begin the question-answer-session. [Operator Instructions] The first question come from the line of Jack Reynolds-Clark with RBC Capital Markets. Please go ahead.

**Jack Reynolds-Clark**

*Analyst, RBC Europe Ltd.*

Q

Hi, there. Thanks for taking the questions. I have three, please. Two on guidance and then one on Heylo. So, kind of given your commentary at the start of the fiscal year around kind of [ph] phasing at least (00:19:09) through the year with H1 kind of expected to be a bit lower than H2. Did the strong start in H1 imply that you're expecting kind of a slowdown in Q2? Or actually, is there kind of meaningful upside to that 8% organic revenue guide for the full year?

Similarly, on margin guidance, obviously, [ph] you had sort of (00:19:27) expectations around margin in H1, but the result came in quite strong. So, does this kind of leave a room for [indiscernible] (00:19:34) upside to the full year? And the third question around Heylo. Could you give us an update on kind of where you are with your conversations with the regulator here? Thank you.

**Anders Lonning-Skovgaard**

*Chief Financial Officer & Executive Vice President, Coloplast A/S*

A

All right. Thanks a lot, Jack, for your questions. Let me start with the guidance and the phasing for the rest of the year. And so, as we just said, that we are satisfied with the start of the year in Q1. We are on our organic growth expecting especially in the second half to accelerate also as a consequence of improvements within our Urology business and more impact from the innovation and the launches that we are going to do throughout the year.

In terms of the margin, yes, we are off to a bit better start than we thought back in November in our first quarter. And that also means that we will – I'm actually expecting first half and second half with the current knowledge to be similar. Please remember that we are going to have an increase in salaries at January 1 of around double digit in Hungary and that will have some negative impact. But overall, we are satisfied with the start of the year and I'm still expecting we will deliver within the guidance of 27% to 28% on the margin.

**Kristian Villumsen**

*President & Chief Executive Officer, Coloplast A/S*

A

And Jack, to your question on Heylo, we have no news to report. We're still basically waiting answers in the next few months from the authorities. We still expect a launch in the first half of 2024.

**Jack Reynolds-Clark**

*Analyst, RBC Europe Ltd.*

Q

That's great. Thanks very much.

**Operator:** The next question come from the line of Hassan Al-Wakeel with Barclays. Please go ahead.

**Hassan Al-Wakeel**

*Analyst, Barclays Investment Bank*

Q



Hi. Good morning. Thank you for taking my questions. I've got two, please. So, firstly, can you talk a bit more about the order phasing in the US in Ostomy Care and whether we should expect high growth in Q2 from orders that didn't make it into Q1 and how meaningful they were? And then secondly, on China, if you could talk about the recovery in new patient discharges here and whether you're seeing any improvement in average basket sizes. And I guess your thoughts around the Chinese market for the remainder of the year. Thank you.

**Kristian Villumsen**

*President & Chief Executive Officer, Coloplast A/S*

A

Thank you, Hassan. So, yes, there was a bit of a Q1 softness on US Ostomy Care, which is pretty much down to order phasing by one of our major distributors. I regard this as business as usual. The strong underlying demand, good patient acquisition momentum. And I still expect for the US business to deliver a year with high-single digit growth. We're still enjoying – I think we'll benefit from the expansions that we got from the increase in the GPO access and the expansion of the sales team. So, that basically boils down to double-digit growth in Ostomy Care and high-single digit growth in Chronic Care.

To your second question on China, we had a good quarter. The growth is mid-single digit as you can see in the commentary but the inflow of patients is now double digit. And if I look at the absolute number patients that are coming into the business, we're back to where we were pre-COVID. So, it actually looks quite healthy and good, meaningful activity level. The basket size is still soft. So, nothing really new to report there. And I think, like I've said in previous quarters, this is just attached to sentiment around the economy. We're making good progress on the consumer initiatives that we have in China. So, all told, my basic stance on China is still one of optimism. This will be the, if you will, the largest demographic burden of any country in human history. And there'll be plenty of work for us to do on the medium and long term, but a good quarter.

**Hassan Al-Wakeel**

*Analyst, Barclays Investment Bank*

Q

Very helpful. If I could just follow up on China. Given the first commercial sale of the voice prosthesis last month, how do you see Atos Medical in China shaping out over the medium term? And what are the next milestones we should be looking out for? Thank you.

**Kristian Villumsen**

*President & Chief Executive Officer, Coloplast A/S*

A

Yeah. So, thank you for that question. Of course, the implant of the first voice prostheses in China was a big milestone, both for us, but not least for Chinese patients. So, you should remember that about 20-plus percent of the new patients worldwide in laryngectomy are in the Chinese market, and until now, they haven't had access to this technology. So, the real work has begun of training doctors, getting the products registered in accounts, by accounts training nurses that also are part of the procedures, getting the care program around this up and running. And it's going to be a long haul, but it is significant. And, but of course, part of why we believe that Atos will continue to grow very strongly also over the medium and long term, Hassan. So, it's really good news. And the key KPI is a lot more patients into the business and there are many more hospitals with the procedure established.

**Hassan Al-Wakeel**

*Analyst, Barclays Investment Bank*

Q

Perfect. Thank you.

**Operator:** The next question comes from the line of Robert Davies with Morgan Stanley. Please go ahead.

**Robert J. Davies**

*Analyst, Morgan Stanley & Co. International Plc*

Q

Yes. Thanks for taking my questions. My first one was just if you could touch on the advanced Skin Care division. I noticed over the last few quarters you've been seeing quite good growth momentum. Just wanted to drill in a little closer and see what was sort of underpinning that. And then the second question is just on Interventional Urology, which is obviously going to come down. Was there anything above and beyond sort of difficult comps from last year that's worth calling out in Interventional Urology or was that it? Thank you.

**Kristian Villumsen**

*President & Chief Executive Officer, Coloplast A/S*

A

Thanks for those two questions. So, yes, Skin Care is seeing a good growth. There is some impact from COVID for a long time and the category is basically rebounding. There's also a bit of baseline benefit in the quarter, but on the whole, good momentum. In the business, we're seeing broad-based pickup across the regions in the US. So, I'd say, probably nothing else to remark around your question to Skin Care. The Interventional Urology, there's a bit of baseline in the figures. We had a very strong Q1 last year, but we are also seeing a bit of softness in Europe. I am expecting the business to accelerate from here over the coming quarters and the IU business to deliver high-single digit growth for the year. We've got really good momentum in North America and a number of good activities underway.

So, we will deliver a good year.

**Robert J. Davies**

*Analyst, Morgan Stanley & Co. International Plc*

Q

And sorry. Maybe just a follow-up on that. Where in Europe? Is that a specific country that you're seeing regions? Or is it just kind of a more broad-based phenomenon?

**Kristian Villumsen**

*President & Chief Executive Officer, Coloplast A/S*

A

It's a bit broad-based, I would say. A bit broad-based.

**Robert J. Davies**

*Analyst, Morgan Stanley & Co. International Plc*

Q

That's great. Thank you.

**Kristian Villumsen**

*President & Chief Executive Officer, Coloplast A/S*

A

But it's mostly around our single use devices.

**Robert J. Davies**

*Analyst, Morgan Stanley & Co. International Plc*

Q

Okay. Thank you. That was all my questions.

**Operator:** The next question is from Veronika Dubajova with Citi. Please go ahead.

**Veronika Dubajova**

*Analyst, Citigroup Global Markets Ltd.*



Hi, guys. Good morning, Kristian and Anders. Thanks for taking my questions. I have three, please. First one is on Kerecis and the 35% growth rate in the quarter. I'm just curious if there was any phasing or seasonality in here? Just slightly surprised by the magnitude. And I know this is very simple math, but if I look at that number you had given us for September, it doesn't seem like the fourth quarter has seen any sequential growth rate in Kerecis revenues. I get it. We don't have the baseline. I'm extrapolating from a single month, but just would love to hear how you feel about the 35%. And to the extent that your expectations for the full year are maybe anchoring closer to 30% than to 40%, and that would be helpful to know.

My second question is on Atos and the portfolio rationalization. Can you quantify the headwind and let us know whether this is something we should be expecting for the remainder of the year? And maybe if you can comment on what exactly is being rationalized, that would be super helpful.

And then my last question is on Luja, big congratulations on launching in 10 countries. Would love to get an update on where we are with premium pricing in particular, I guess in the US, which had been – which is potentially a big opportunity for you guys. Thanks so much.

**Kristian Villumsen**

*President & Chief Executive Officer, Coloplast A/S*



Thank you, Veronika. Pretty good questions. The first one on Kerecis. We're on plan and the ramp continues. So, remember here, the expansion that we're driving now with this business is really adding quite a lot of people. And what happens as we bring them on board is, of course, that they need to be trained, they need to get in territory, get their arms around the business and the customers. So, that improves month on month. So, my expectation is also, as we move through the year that you're going to see some acceleration from where we are now. I'll just remind you that what we've set for the business is a CAGR of 30% for these – for the coming three-year period. But we're off to a good start. We're on plan.

To your question on Atos, the product rationalization. I'll say as much as the tracheostomy and laryngectomy businesses are comfortably in high-single digit. So, these are – we had a part of the portfolio which was in niches and low-margin products that we also distributed that just didn't make sense to keep in the portfolio. You should regard this as a temporary impact and I expect the business to be also comfortably in the 8% to 10% range that we have guided for the year.

Luja is going well. It's also going well in the US and we've seen price premiums depending on market, mid-single to high-single digit. And I am expecting that this will gradually impact the Continence Care growth and allow it to accelerate. So, so far, so good.

**Veronika Dubajova**

*Analyst, Citigroup Global Markets Ltd.*



Thanks for that, Kristian. Maybe just to follow up on the Luja price premium. Have you been able to obtain a separate code in the US or is the price premium really coming from your ability to charge a higher price to the distributors?

**Kristian Villumsen**

*President & Chief Executive Officer, Coloplast A/S*



It is the latter.

**Veronika Dubajova**

*Analyst, Citigroup Global Markets Ltd.*

Q

Very clear. Excellent. Thank you guys so much.

**Operator:** The next question comes from the line of Lisa Clive with Bernstein. Please go ahead.

**Lisa Bedell Clive**

*Analyst, Bernstein Autonomous LLP*

Q

Hi. I just have a question on your Ostomy portfolio. Really just wanted to know, given your wide portfolio across Flat, Convex, Concave with the Convex and Concave coming in at higher price points, where are you in terms of getting sort of all the patients who could be on those products on them today? Just trying to understand if there's a mix opportunity here. Obviously, it takes time to educate patients, get them to trade up on existing patients, and then just making sure the right new patients get on them. But would you say that you have penetrated most of that potential upside or is there still a fair amount to go?

**Kristian Villumsen**

*President & Chief Executive Officer, Coloplast A/S*

A

No. That's a lot to go for. That's a lot to go for. So, you would say Concave is still small, but both of the products are doing – both of those categories are doing extremely well. And we're unique with the offering in Concave and in Convex, where we're doing very well. There's going to be, in my mind, a 10-year run on mix here, if not more. So, there will – that's plenty of work, plenty of work to do. And of course, this is also part of – if you look at our performance when we are growing significantly above market, part of that is also that we have a strong offering in higher value segments.

**Lisa Bedell Clive**

*Analyst, Bernstein Autonomous LLP*

Q

Okay. And then a somewhat related question on your Continence portfolio that the US has historically just been a really low-end market. And I know your mix has been probably better than the market. But where are you on kind of approaching full penetration of hydrophilic catheters?

**Kristian Villumsen**

*President & Chief Executive Officer, Coloplast A/S*

A

I think the full penetration of hydrophilic is going to take a very long time unfortunately. But so just for reference, as I say, we've been doing [ph] this part (00:32:58) for about 30 years in Europe. And reimbursement for hydrophilic catheters came from memory, it's probably 13, 14 years ago in the US. And back in 2008, and so just shortly after I joined the company, and it would probably [ph] a third of (00:33:22) the way. But in volume terms, you still have a very, very high number of patients that are still on old technology.

So, the – if you will, the strategic intent of the company for this entire period has been converting the market to hydrophilic, and that remains the strategic intent. And now with Luja, of course, we have an even stronger offering than we've had historically. So, that conversion will continue. But if underneath your question, there's a worry that this opportunity is fully penetrated, by no means, that's a very, very long way to go before we have successfully converted the US market.

**Lisa Bedell Clive**

*Analyst, Bernstein Autonomous LLP*

Q

That's very clear. Thank you.

**Operator:** The next question is from Anchal Verma with JPMorgan. Please go ahead.

**Anchal Verma**

*Analyst, JPMorgan Securities Plc*



Hi. Good morning. Thank you for taking my questions. I have three, please. One is on your cost inflation assumptions. They look to remain unchanged. And now that you have a bit more visibility, can you just talk to where you've seen potential upside or downside and where the potential opportunities still lie at the [ph] company office (00:34:35) level, both opportunities and uncertainties?

And then secondly, on the FX impact at the margin level. I believe you pointed out to 50 bps of [ph] EBIT (00:34:45) impact for the full year. That seems to have remained the same as per your previous communication. Just checking if there's an update to that given the recent FX [ph] move (00:34:55).

And then lastly, can you just share your expectations for pricing for the year, please?

**Anders Lonning-Skovgaard**

*Chief Financial Officer & Executive Vice President, Coloplast A/S*



Yes. So, thanks a lot for those three questions. So, let me start with the first around the cost inflation. And if we look at the raw materials, so we have said that when we started the year, we're expecting raw material prices to increase around 5% for the year and that's still our assumption. When that is set, we are starting to see inflation coming down. So, the inflation levels in Hungary in the Q1 was around 8%, and now the inflation levels forecast for Hungary in 2024 is around 5%. So, it is starting to come down. So, that's at least positive.

And the other one, we are following closely, that's energy. So, the energy, as you all are aware, we have hedged this year, but right now, the energy is also coming down to a level of around or lower than €100 per megawatt. So, that will also give us some tailwind, especially into next year. So, I would say inflation levels, less input costs are becoming or is starting to look better. And I am starting to be more optimistic in terms of that, especially into next year.

So, that was the first question. The second around our FX assumptions. So, as I said in the opening remarks, we are expecting a headwind from FX at the full year level of around 50 basis points given the current spot rates. So, no changes to that.

And then the third question around prices. So, we continue to work on increasing prices and we are also doing that in 2023/2024. And again, we are looking into a year with a positive price levels. So, that's a positive, but not as much as last year. And this is still under the assumption we are not going to see any bigger healthcare reforms. So, that's our view short term. But long term, I'm still expecting that we will see price pressure, especially if there are new healthcare reforms coming up. But right now, there's no big ones in the horizon.

**Anchal Verma**

*Analyst, JPMorgan Securities Plc*



Thank you. That's very helpful.

**Operator:** The next question is from Christian Ryom with Danske Bank. Please go ahead.

**Christian Sørup Ryom**

*Analyst, Danske Bank A/S*



Yes, good morning for taking my questions. I have two as well. The first is actually a follow-up on the last question on price. So, Anders, can you help us with how much of the price increases that you are expecting for this year you've been able to implement already here in Q1? And what might be the – and how large incremental opportunities you see for the coming quarters and specifically whether that is sufficient to offset the headwind that you're likely looking into on higher blue collar wages, as I understand it here from Q2?

And then the second question is on your US Wound Care opportunity and the investments that you've made in connection with the new Biatain Fit, whether those salesforce investments are already fully reflected in Q1. And then I'd also be interested if you could talk about the opportunity to, say, cross-leverage the commercial resources that you have with Kerecis for this new product. Thank you.

**Anders Lonning-Skovgaard**

*Chief Financial Officer & Executive Vice President, Coloplast A/S*



[indiscernible] (00:38:51) Christian, let me start with the first one around the pricing phasing throughout the year. So, we had a number of price increases already here in the first quarter. There will be more coming up, especially throughout this quarter. So that is our current plans. And it is across both Europe broadly, especially emerging markets, and to some extent, US. And whether that is going to offset the blue collar salary increases that that's – it's not fully going to offset that because the blue collar inflation levels or salary levels, we are going to – or have increased from January 1 is around 10% across our Hungarian sites.

**Kristian Villumsen**

*President & Chief Executive Officer, Coloplast A/S*



And to your second question on the Biatain Silicone Fit launch in the US. So you asked a question. So this was the launch that we have been waiting for that we have a competitive portfolio that we know that we can convert IDNs and hospitals with.

You see, most of the investment in salesforce is reflected here in Q1. We continue to run the two Wound Care team separately. So of course, you will see the Kerecis team are – they're going to basically recommend that Biatain dressings to be used in connection with the fish-skin technology, not other dressings. But the volume is relatively modest.

And my expectation is also, over time, that you're going to see that we'll be able to make combination parts between our foam and adhesive technology and the fish-skin technology. There are a number of opportunities to do that. But for now, two separate sales teams.

**Christian Sørup Ryom**

*Analyst, Danske Bank A/S*



That's very clear. Thank you very much.

**Operator:** The next question is from Julien Dormois with Jefferies. Please go ahead.

**Julien Dormois**

*Analyst, Jefferies GmbH (FR)*





Yes. Good morning, gentlemen. Thanks for taking my questions. I'm left with two at this time. The first one relate to gross margin. Obviously, you've already discussed the cost savings for the year, but you have previously indicated that you're targeting around 68% gross margin for the full year. Is that expectation now a little too cautious and do you believe you can do a little more on that side?

And the second one is a more broader question on the Strive25 ambition and more particularly to the long-term margin objective of going back to 30% plus by the end of the strategic period. Now that the dust has settled around the acquisitions and most markets seems to have stabilized, broadly speaking, do you have increased confidence in that target from what you see in your business in the past few months and quarters?

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**Anders Lonning-Skovgaard**

*Chief Financial Officer & Executive Vice President, Coloplast A/S*

A

Yeah. So let me take your questions, Julien. So your first question around the gross margin. Yes, I'm still expecting to end the year with around 68%, so – and that includes benefits from the Kerecis acquisition of around 100 basis points. So that's what we are expecting for the full year.

In terms of your second question, and now we're moving into next year and the following years, we are still committed ex-Kerecis to deliver around 30% into next year and also including Kerecis, over time, to deliver on our long-term margin guidance.

And as I said just earlier, especially on the input cost, we are starting to be more optimistic when you look at the inflation levels, especially in Eastern Europe, and also starting to look at the energy levels that also are coming down compared to the levels we look at for this year. And we will continue with, let me say, the improvement on costs and how we allocate our resources. So we are still comfortable that we will deliver on our long-term growth and margin guidance.

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**Julien Dormois**

*Analyst, Jefferies GmbH (FR)*

Q

Very clear. Thank you.

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**Operator:** The next question is from Arianne (sic) [Marianne] (00:43:18) Bulot with Bank of America. Please go ahead.

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**Marianne Bulot**

*Analyst, Bank of America*

Q

Hi. Good morning, and thank you for taking my question. I have two on the Wound Care business. So the first one is on Kerecis, and maybe wondering if you could provide a bit of an update on how the customer feedback in the salesforce on the ground. And the second one is on the launch of the new product and whether you expect to see any contribution or any meaningful contribution into this year. Thank you.

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**Kristian Villumsen**

*President & Chief Executive Officer, Coloplast A/S*

A

Thank you. I think the best way to judge customer feedback is to look at the growth rate. Our customers are voting. So if you look at how fast Kerecis has moved up the lead table in the biologics segment, it's basically a testament to, I think, two things. One is the strength of the technology and the clinical relevance of the technology, and the other one is the strength of the team.



And so with the growth rates that we have here and the acceleration that I'm expecting, this could only happen if we do good work on the ground and customers seem to continue to provide that feedback. And certainly also what I – I spent some time in the field late last year with the Kerecis team and came away very, very positive about our field presence and the quality of the people that we have in the field.

When it comes to the new product, you shouldn't expect a lot of impact from the Biatain Silicone Fit this year. It's a relatively long sales cycle when you look at IDNs in the US. So this will be a gradual pickup, with impact starting to be meaningful next year.

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**Marianne Bulot***Analyst, Bank of America*

Q

Okay. Thank you very much. And maybe just a quick follow-up on the Kerecis side. You mentioned that you were gaining market share. Anything we could track in terms of KPI and what your expectations are in terms of margin for this year?

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**Kristian Villumsen***President & Chief Executive Officer, Coloplast A/S*

A

On margin? Sorry, what was your question?

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**Marianne Bulot***Analyst, Bank of America*

Q

For Kerecis, sorry. I meant for Kerecis. Could you maybe comment anything that we could track in terms of market share gains in what you're seeing and if you have any expectations on the margin for Kerecis into this year?

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**Kristian Villumsen***President & Chief Executive Officer, Coloplast A/S*

A

Well, we've guided for 30% CAGR growth for the business. What I'm saying is that I'm expecting the business, after this quarter, to accelerate as we move through the year. And then you should expect at least this margin level that we posted this quarter, at least.

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**Marianne Bulot***Analyst, Bank of America*

Q

Okay. Thank you.

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**Operator:** The next question comes from the line of Mattias Häggblom with Handelsbanken. Please go ahead.

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**Mattias Häggblom***Analyst, Svenska Handelsbanken AB*

Q

Thank you so much. Good morning. Two questions, please, both on Kerecis. So firstly, following up on previous questions, [ph] we don't (00:46:27) have all the quarterly performance from last year, but mainly in the full year. So we've been sort of guessing the distribution over the year. So perhaps help us frame expectations into Q2? Was Kerecis sequentially up or flat in Q2 last year? Trying to get a better understanding – and the seasonality of this rapidly growing business.

And then secondly, when I try to back out the gross margin of Kerecis, in light of the sales number you gave us for Kerecis, the amortization and OpEx including in Kerecis and the 10% EBIT margin from Kerecis, excluding PPA amortizations for the quarter, I get a step-up in the gross margin, close to 95%. So can you maybe help me understand where in my triangulation I go wrong? As you say, Kerecis' gross margin was broadly in line with previous levels, which I believe has been said to be roughly 90%. Thank you so much.

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**Kristian Villumsen**

*President & Chief Executive Officer, Coloplast A/S*

A

So thank you, Mattias. I'll say this much that I'm expecting the business to accelerate against Q1 over the over the coming quarters. You should expect the – what we've already seen in terms of contribution to reported growth, you should expect that to continue because it's a fast-growing business. There, I'm not expecting a big level of seasonality. I am expecting to basically accelerate against Q1, which is as a result of the ramp that we're doing on the front line.

To your question on gross margin, so I'll just say that we're – it's a very healthy gross margin. And I can also say that it is a bit over 90%.

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**Mattias Häggblom**

*Analyst, Svenska Handelsbanken AB*

Q

Thank you so much.

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**Operator:** The next question is from Maja Stephanie Pataki with Kepler Cheuvreux. Please go ahead.

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**Maja Stephanie Pataki**

*Analyst, Kepler Cheuvreux SA (Switzerland)*

Q

Yes. Thanks for taking my questions. I have two, please. First, on China and good to be back to growth. But you reiterate your confidence of China is going to return to double-digit growth. And I was wondering, what are the underlying assumptions to that? I understand it's not going to happen overnight, but is it patient growth that you anticipate is going to accelerate or is it that you expect the share of wallet to increase over time again, or is it coming from different businesses? That's my first question.

And then the second question around Luja. Great to have the feedback that you provided from the market, but is there anything that you say is different when you approach the medical community with Luja that there is a faster ramp or faster reorder or easier to sell? Anything that you could provide as feedback would be appreciated. Thank you.

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**Kristian Villumsen**

*President & Chief Executive Officer, Coloplast A/S*

A

Thank you, Maja. We could spend the entire call just on Luja. It's super exciting. But to your first question on – to your first question on China, it starts with patient inflow. And to me, it's a very important and positive data point that the patient inflow is now back to where we were pre-COVID. It's growing double digit. I'm looking at absolute inflow numbers and a distribution of inflow numbers across regions that's healthy.

And then the other component of the equation is the ongoing consumption and how consumers spend their money. And I think for us to get fully back, we need to see an improvement in that sentiment that I'm not seeing yet. But as soon as we see it in our actual data, we will certainly communicate that to you. But the first and most important data point here is that the absolute inflow was back.

And then I think the basic optimism I have for the China outlook is part demographic, part just the size of the economy. I.e., of course, everybody is speculating about how fast it's going to come back and how many bumps in the road there are going to be, but the Chinese economy is large, strong and I cannot, for the life of me, imagine that this is going to go on forever.

So, on your second question on Luja, this is a different launch. This is a different product. And it comes to market with a stronger level of clinical evidence than anything we've ever come with. It comes with demonstration tools that are highly intuitive. It comes with a ton of healthcare professional and consumer testimonials about the product.

And of course, we're using the full effect of the model that we've built over the last decade, where we're able to engage consumers and clinicians directly to make everybody aware that there's now a new offering on the table. And we can also see that in the numbers. We can see that in the consumer channel. We can see it in the number of calls that we're getting.

So I am just very optimistic about the impact of that technology. It is going to be the most important catheter launch in since, I think, the original SpeediCath.

**Maja Stephanie Pataki**

*Analyst, Kepler Cheuvreux SA (Switzerland)*

Q

Got it. Kristian, just maybe quickly a follow-up on that. With Luja, initially you said like, well, we're going to target new clients and then we're going to go for the conversion. Is it that you're converting or that you're winning new customers or patients?

**Kristian Villumsen**

*President & Chief Executive Officer, Coloplast A/S*

A

Yes, we're winning. We're winning a lot of new patients.

**Maja Stephanie Pataki**

*Analyst, Kepler Cheuvreux SA (Switzerland)*

Q

Great. Thanks a lot.

**Operator:** The next question is from Richard Felton with GS. Please go ahead.

**Richard Felton**

*Analyst, Goldman Sachs International*

Q

Thanks. Just one question for me, please and it's a follow-up on China and the dynamics that you're seeing in Ostomy. So look, I know you've been flagging consumer weakness in that market for a while, but could you maybe add a bit more color on what consumer behavior actually seeing? Is it a case of less frequent changing of bags? Is there downtrading to local players? And then to the extent that there is some downtrading out of your portfolio, are those patients that you would expect to move back into the Coloplast feature products when the macro environment does improve? Thank you.

**Kristian Villumsen**

*President & Chief Executive Officer, Coloplast A/S*

A

Thank you. Good questions. So I'd basically say we're seeing all of the above. So we have seen consumption patterns change. We have seen an element of downtrading. And of course, some of those customers will be able to win back, some we will not. And we're doing a lot of work in the consumer channel right now to more actively participate in that and also selling more resources after campaigns and presence in the consumer channel. So we are definitely reacting to it.

When it's going to change, the truth is I don't know and I hesitate to predict it. I want to see it in the data first. But the two equations for – what are the two components in the equation for running a strong Ostomy Care business is strong inflow of new patients and of course a strong element of retention and service in the consumer channel.

Now, we're seeing the new patient data suggesting that we're coming back to where we were pre-COVID and of course, we're working hard in the consumer channel and so close to it, that the second that that starts to change, our presence is full on.

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**Richard Felton**

*Analyst, Goldman Sachs International*

Q

Thank you, Kristian.

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**Operator:** The next question is from Niels Granholm-Leth with Carnegie. Please go ahead.

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**Niels Granholm-Leth**

*Analyst, Carnegie Investment Bank AB (Denmark)*

Q

Thank you. First question is a housekeeping question. Could you update us on your expectations on net financial cost for this year? Second question on your new Wound Care sales organization in the US. Is this an incremental cost for quarter two onwards or has it been in place for several quarters? Thank you.

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**Anders Lonning-Skovgaard**

*Chief Financial Officer & Executive Vice President, Coloplast A/S*

A

So thank you for that, Niels. On your first question, the net financials, I'm expecting around DKK 750 million. It's up versus what we believe early in the year due to the Argentinian peso development.

And then to your second question around our Wound Care expansion in the US, it will be started out investing into the expansion in Q1, but we will start to have the full impact here from the second quarter.

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**Niels Granholm-Leth**

*Analyst, Carnegie Investment Bank AB (Denmark)*

Q

Okay. Thank you.

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**Anders Lonning-Skovgaard**

*Chief Financial Officer & Executive Vice President, Coloplast A/S*

A

Did I answer your question? Yeah.

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**Niels Granholm-Leth**

*Analyst, Carnegie Investment Bank AB (Denmark)*

Q

Yes. Thank you.

**Operator:** The last question is from [indiscernible] (00:56:15) with UBS. Please go ahead.

**Graham Doyle**

*Analyst, UBS AG (London Branch)*

Q

Hi, it's actually Graham from UBS. Just struggling with the basics of technology today. Just two questions from me, please. With the Atos business and the sales growth there, would you be able to maybe give us a bit of a shape of what's [ph] HMEs (00:56:34) and then sort of what is accessories in terms of growth?

And then a second question on Kerecis. Can you maybe help sort of – so we obviously talk about the sort of harder wins of share gains with a superior product, but would you be able to give us a bit of a color in terms of the access to the market you have right now and how much space you have in terms of easier wins? So, whether it's commercial payers or expansion in Medicare. It would be really good to get a sense of how much easier it is to access that growth over next year or two before you're going head-to-head necessarily? Thank you.

**Kristian Villumsen**

*President & Chief Executive Officer, Coloplast A/S*

A

So to your first question on Atos, we're not going to break down the source of growth. The way we run the business is like we also run the Chronic Care business, that the first job is to win the hospital and win the patient in hospital, make sure that they get on service, get on good consumption patterns. And over time, of course, you work both volume of patients, product mix and retention, and all provide meaningful contribution to growth. You also work on the geographical, if you will, country mix to drive growth.

And I'll just reiterate that for both laryngectomy and tracheostomy and Atos, both businesses are growing healthy high-single digit this first quarter on the back of a year where we grew double digits. So we're very pleased with where it's at.

To your question on Kerecis, I'm a little uncertain exactly what the question was. But the growth and the composition of growth, of course, there's an element of having a good coverage. We continue to work on expanding commercial coverage.

I can't get you the exact number, but right now we're, from memory, we're covering about 150 million insured lives and of course also Medicare patients. But we are working continuously to expand that number.

The growth now is coming from commercial frontline expansion also. And I want to say that this is a very competitive space and that we are taking share directly from the four companies that are still bigger than us in the space, and we will continue to do so. The ambition is to build a category leader and we're investing to do that.

**Graham Doyle**

*Analyst, UBS AG (London Branch)*

Q

Great. Thank you. One quick follow-up just on freight rates. Obviously, you were all expecting it to be a healthy hand this year in margin. Is there any sort of issue around the sort of Red Sea impact right now that you're seeing in rates or is it just kind of keep an eye on this?

**Anders Lonning-Skovgaard**

*Chief Financial Officer & Executive Vice President, Coloplast A/S*

A

So no, we're not expecting any significant impact from that.

**Graham Doyle**

*Analyst, UBS AG (London Branch)*



Perfect. Super clear. Thanks a lot, guys. Appreciate it.

**Kristian Villumsen**

*President & Chief Executive Officer, Coloplast A/S*

So that concludes today's conference call. Thank you, everybody. We hope to see many of you for our meeting in June. Of course, we'll have a chance to talk again after our Q2. Thank you very much.

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