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Coloplast A/S (CLPBY.DK)

Q1 2025 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, welcome to the Coloplast A/S Q1 2024-2025 Earnings Release Conference Call. I am Valentina, the Chorus Call operator.

I would like to remind you that all participants will be in listen-only mode and the conference is being recorded. The presentation will be followed by a Q&A session. [Operator Instructions] The conference must not be recorded for publication or broadcast.

At this time, it's my pleasure to hand over to Kristian Villumsen, President and CEO. Please go ahead.

Kristian Villumsen

President & Chief Executive Officer, Coloplast A/S

Good morning and welcome to our Q1 2024-2025 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 with a short presentation by Anders and myself, and then open up for questions, as we usually do.

Please turn to slide number 3. We delivered 8% organic growth and a reported EBIT margin before special items of 27%, which was in line with our expectations. Adjusted return on invested capital after tax and before special items was 15% on par with last year.

Let me start today's call with a few highlights. On the 14th of November 2024, the final Local Coverage Determination policy for skin substitutes was announced. Kerecis was one of the few products that was added back to the final list of covered products as a result of the strong clinical evidence backing the efficacy of the fish-skin technology.

Following a freeze of all regulatory guidance not yet in effect by the new US administration, the implementation date of the final LCD policy has been moved by two months to the 13th of April, 2025.

Kerecis' products are currently covered and will remain covered once the final LCD policy is implemented and as such, this updated implementation timeline is not expected to impact current trading.

Next, in December 2024, we announced the divestment of our Skin Care business. The divestment is a key initiative from the simplicity and profitability improvement program for our Advanced Wound Care business area, which will result in a positive impact on the group EBIT margin, of around 30 basis points this financial year. The divestment will reduce reported revenue for 2024-2025, with around DKK 350 million, or around 1.5-percentage points impact on reported revenue growth.

Now, let's look at a few performance highlights from Q1. Our Chronic Care business is off to a good start with both Ostomy Care and Continence Care outgrowing the market. Continence Care Q1 marked the first quarter in which Luja was the main contributor to growth driven by the male catheter. We continue to receive strong feedback on Luja and its Micro-hole Zone technology from both users and healthcare professionals.

We also continue the rollout of the female version of the catheter now available in nine markets with the US as the latest launch market.

Our two newest additions to the portfolio, Atos Medical and Kerecis, are also off to a good start, with continued strong momentum and double-digit growth in the quarter.

Finally, Q1 also marked a soft start in our Interventional Urology business in our emerging markets region. In Interventional Urology, growth in the quarter was impacted by a voluntary product recall related to packaging initiated in December 2024. The issue with the packaging has been resolved and we will resume sales of the affected products here in February. Emerging Markets growth was impacted by a high baseline last year, but despite the softer start, I expect an improvement in both businesses during the year.

Now, let's look at today's results in more detail. Could I ask you to please turn to slide number 4? In Ostomy Care, both organic growth and growth in Danish kroner was 7% in the first quarter. The SenSura Mio portfolio was the main growth contributor in Q1. Our latest addition to the Ostomy Care portfolio, SenSura Mio in black, is off to a good start in the 12 markets where the range has been launched.

Brava range of supporting products also made a solid contribution to growth, while our SenSura and Assura/Alterna portfolios continue to drive growth in Emerging Markets.

From a geographical perspective, growth in Q1 was driven by solid contributions from Europe and the US. Emerging Markets region was impacted by a high baseline last year, as mentioned earlier, and delivered a softer Q1. The US posted double-digit growth in the quarter, which includes solid underlying demand and also some benefit from a lower baseline last year.

In Continence Care, both organic growth and growth in Danish kroner were 7% for Q1. The Luja portfolio was the main growth contributor in the quarter, driven by the male catheter in the UK and Germany. The SpeediCath intermittent catheters also contributed to growth in the quarter. Our two smaller segments in Continence Care, Bowel Care and Collecting Devices both contributed to growth in Q1.

From a geographical perspective, growth was driven by Europe and the US, while growth in Emerging markets was impacted by a high baseline, as mentioned previously.

Voice and Respiratory Care posted 11% growth for Q1, with growth in Danish kroner of 10%. Strong performance in Voice and Respiratory Care continues to be driven by broad-based contributions from both Laryngectomy and Tracheostomy, both of which grew at a double-digit rate in Q1. In Laryngectomy, growth 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. A recent example of how we continue to develop the laryngectomy market comes from France, where reimbursement for heat moisture exchangers was expanded from 1 HME per day to multiple HMEs per day, allowing users better choice and better situational use of the products.

Growth in Tracheostomy in the quarter was driven by continued solid demand and an increase in the number of patients served. From a geographical perspective, all regions contributed to growth led by Europe and the US.

In Advanced Wound Care, organic growth was 12% for Q1 and growth in Danish kroner was 7%. Reported growth includes 4 percentage points negative impact from the divestment of the Skin Care business, reflecting one month of impact. Kerecis was the main growth contributor in Advanced Wound Care with continued solid momentum and growth of 32% in Q1.

Growth was broad-based with contributions from both the inpatient and outpatient segments and Kerecis' operating profit margin, excluding PPA amortization, was 12% in the quarter, in line with expectations. The

Advanced Wound Dressings business grew 6% in Q1. From a product perspective, Biatain Fiber was the main growth contributor, followed by Biatain Silicone. In October 2024, our dressing portfolio was strengthened with the launch of Biatain Superabsorber, a soft and non-adhesive dressing for the treatment of wounds with high volumes of exudate.

The product has been launched in key European markets with very positive feedback.

In Interventional Urology, both organic growth and growth in Danish kroner were 1%. As mentioned earlier, growth in the quarter includes negative impact from the voluntary product recall in Bladder Health and Surgery of around DKK 25 million. We expect continued negative impact from the product recall in the second quarter of around DKK 15 million, and as I mentioned earlier, sales of the affected products will resume here in early February.

We expect to recover the majority of the lost revenues in the second half of the year as we continue to see unmet demand in the market for the affected products. The negative impact from the product recall was partly offset by a solid quarter in the Endourology business driven by our laser equipment, the Thulium Fiber Laser Drive. And the Men's Health business in the US also contributed to growth, while the Women's Health business had a neutral impact on growth.

From a geographical perspective, the US was the main growth contributor in Q1, while Europe detracted from growth due to the product recall.

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

Anders Lonning-Skovgaard

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

Thank you, Kristian, and good morning, everyone. Reported revenue for Q1 increased by DKK 420 million or 6% compared to last year. Organic growth contributed around DKK 500 million or around 8% to reported revenue. Revenue from divested operations mostly related to the divestment of the Skin Care business in December 2024, reduced reported revenue by DKK 47 million, or around 1%.

Foreign exchange rates, reduced reported revenue by DKK 32 million, or around 1%, mostly related to the depreciation of a basket of Emerging Market currencies, such as the Argentinian peso, the Brazilian real against the Danish kroner, as well as the Japanese yen against the Danish kroner. This negative impact was only partly offset by the appreciation of the British pound against the Danish kroner.

Please turn to slide number 6. Gross profit for Q1 amounted to DKK 4.8 billion, corresponding to a gross margin of 68%, on par with last year. The gross margin was positively impacted by favorable development in input costs, price increases, and country and product mix. The positive development in the above-mentioned factors was partly offset by ramp-up costs of our manufacturing sites in Costa Rica and Portugal. The gross margin also included negative impact from currencies of around 40 basis points.

Operating expenses for Q1 amounted to around DKK 2.8 billion, increasing by 6% compared to last year. The distribution to sales ratio for Q1 was 33% compared to 32% in Q1 last year. The increase in distribution cost was driven by continued commercial investments in Kerecis and higher sales activities across markets. The distribution cost also included around DKK 20 million, extraordinary costs related to the new distribution center in the US.

The admin to sales ratio for Q1 was 4% compared to 5% last year, primarily impacted by a high baseline, as well as benefits from synergies from the Atos medical integration. The R&D to sales ratio for Q1 was 3% of sales compared to 4% last year. Overall, this resulted in an operating profit before special items of DKK 1.9 billion in Q1 and a 5% increase compared to last year.

The EBIT margin before special items for Q1 was 27%, compared to 28% last year. The EBIT margin continues to include negative impact of around 100 basis points from Kerecis, including PPA amortization costs. Currencies also had a negative impact on the reported EBIT margin of around 40 basis points, most related to the depreciation of a basket of emerging market currencies, as well as Japanese yen against the Danish kroner.

Financial items in Q1 were a net expense of DKK 69 million compared to a net expense of DKK 253 million in Q1 last year, driven mostly by interest expenses related to the financing of the Atos Medical acquisition. The finance expenses were partly offset by gains in balance sheet items against the loss on balance sheet items last year. The ordinary tax expense in Q1 was DKK 342 million with an ordinary tax rate of 22%, on par with last year. However, the total tax expense and the effective tax rate were impacted by an extraordinary tax expense of DKK 336 million related to the transfer of Kerecis intellectual property from Iceland to Denmark. As a result of the extraordinary tax expense, the effective tax rate in Q1 amounted to 41%.

The Kerecis IP transfer is made to ensure consistency with our tax model and will help us maintain simplicity in our infrastructure as we initiate the integration of Kerecis. The IP transfer will have a similar quarterly impact on the tax expenses for the rest of this financial year. As a result of the IP transfer and extraordinary tax payment, impacting cash flows will be made in Iceland from 2026-2027 at the earliest.

The payment in Iceland will be fully offset by reduced tax payments in Denmark for a period of around seven years, starting from 2024-2025. Adjusted for the Kerecis IP transfer, net profit before special items in Q1 was DKK 1.4 billion or 17% increase compared to last year. Adjusted diluted earnings per share before special items also increased by 17% to DKK 6.38.

Please turn to slide number 7. Operating cash flow for Q1 was an inflow of DKK 2 billion, compared to an inflow of DKK 1.8 billion in Q1 last year. The development in cash flows was mostly driven by positive development in changes in working capital, driven by trade receivables and inventories, partly offset by an increase in interest payments.

Cash flow from investing activities was an outflow of DKK 133 million, compared to an outflow of DKK 267 million last year. The development in cash flow from investing activities in Q1 includes positive impact of DKK 192 million from the divestment of the Skin Care business. CapEx in Q1 amounted to DKK 308 million, with a CapEx to sales ratio of 4% on par with last year. As a result, the free cash flow for Q1 was an inflow of DKK 1.9 billion, compared to an inflow of DKK 1.5 billion last year.

Excluding the positive impact from the Skin Care divestment, the adjusted free cash flow was an inflow of DKK 1.7 billion, or an 11% increase from Q1 last year. The trailing 12-month cash conversion was 85% and net working capital amounted to around 25% of sales, on par with last year.

Now, let's look at the guidance for 2024-2025 financial year. Please turn to slide number 8. For the 2024-2025 financial year, we continue to expect organic revenue growth of 8% to 9% and an EBIT margin before special items of around 28%. The assumptions on both organic growth and EBIT margin before special items outlined in November still largely hold.

Reported revenue growth in Danish kroner is now expected to be around 7%, which includes around 1.5 percentage points, impact from the Skin Care divestment, and a neutral impact from currencies. On organic revenue growth, guidance assumes continued good momentum and stable supply and distribution of products across the company.

A key development since November is the product recall in Interventional Urology, which creates a high level of uncertainty, but as mentioned earlier, we are optimistic that we can recover majority of the lost sales in the second half of the year. On Kerecis, we continue to expect contribution of around 1 percentage point to group organic growth, and the updated timeline for implementation of the final LCD does not change our expectations.

On EBIT margin before special items, we continue to expect benefit from low inflationary pressure across cost categories and benefit from the profitability improvement initiatives in Advanced Wound Care of around 30 basis points, mostly related to the Skin Care divestment. We are also starting to see a gradual improvement in the extraordinary costs related to the establishment of the US distribution center and we are on track to reach a normalized cost level at the end of Q2.

For Kerecis, we continue to expect the year with improved profitability. However, the impact for the group is still expected to remain at around minus 100 basis points. Finally, currencies are expected to have a limited positive impact on the EBIT margin with improvement expected [ph] else of Q2 (00:26:13).

In terms of phasing, we expect both organic growth and EBIT margin to be second-half weighted. For 2024-2025, I continue to expect around DKK 130 million in special items.

The net financial expenses for 2024-2025 are still expected at around minus DKK 750 million, mostly related to interest expenses from the financing of Atos Medical acquisition. Our ordinary tax rate for 2024-2025 is still expected to be around 22%. However, as a result of the Kerecis IP transfer from Iceland to Denmark, the effective tax rate is expected to be around 40% for the year. Our long-term expectations for tax rate of around 22 – 23% are unchanged.

CapEx is still expected to be around DKK 1.4 billion and includes investments related to the establishment of new manufacturing site in Portugal. On net working capital, I still expect the net working capital to sales ratio in 2024-2025 in line with our long-term expectations of around 24%.

Finally, before we move to Q&A, I would like to mention that we will host a Capital Markets Day in Denmark on the 2nd of September 2025, where we will present our new five- year strategy to the market. We will share further details about the event in due time. We look forward to seeing many of you in person in September. So, thank you very much. And operator, we are now ready to take questions.

QUESTION AND ANSWER SECTION

Operator: We will now begin the question-and-answer session. [Operator Instructions] And the first question comes from Hassan Al-Wakeel from Barclays. Please go ahead.

Hassan Al-Wakeel
Analyst, Barclays Capital Securities Ltd.

Q

Thank you for taking my questions. I have three, please. Firstly, a high-level question on execution at Coloplast, given recent distribution center issues, as well as the small Bladder Health recall. What gives you confidence that these are isolated issues and that we should see more Coloplast-like performance going forwards?

Secondly, on top-line guidance, Kristian, you talked about the lower end of the range reflecting an adverse outcome on the LCD last year. So, is the upper end of the range now more likely? What are the key pushes and pulls to your mind when it comes to growth for the full year? And is Luja still tracking ahead of internal expectations? And then, thirdly, longer-term within Interventional Urology, can you talk about how you're thinking about deepening penetration in the ITNS segment which is low today, as INTIBIA launches and how you see coverage developing in this segment? Thank you.

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

A

That sounded an awful like five questions to me, Hassan, but why don't I take a stab – I take a stab at that. So, on to the first question, high level on execution. We don't run a perfect company and we've had two setbacks over the last 12, 18 months, one related to a distribution center and a quality problem in Urology. We have dealt with those.

I'll say the distribution center, we're back to service levels and there'll be a little bit of cost lingering effect that we will very soon be out of. We have taken the learnings, the consequences from this. And then, I'll say the company manufactures more than 1.5 billion medical devices, from time to time, quality issues happen. You should expect that we run a high-level, high-quality execution company, but not that we – not that we run a perfect company, Hassan. But these are certainly aberrations that I do not expect to repeat.

On top-line range, we are still guiding for 8% to 9%, so we're also guiding for a profile to growth this year where we are weighted to second half. What will drive – what will drive a pickup in second half is EM. It is, of course, that we get out of the back-order situation that we've had around IU. We still continue to get good contributions to growth from innovation, and of course, that our new acquisitions continue to deliver.

It's a little too early to guide where we're on the range. We're just one quarter in. We also – we also would like to see the LCD take effect, of course, but, so far we're maintaining guidance, and I expect that we will end comfortably in range.

On IU and the question on ITNS, for me right now, you know, everything is about the clinical trial, Hassan, and what we can do with that technology will depend on the quality of the results that we get. And we will talk a lot more to how we think about commercializing the technology once we have the clinical data.

We have, of course, thought about how you do that, what the commercial investments look like, what kind of training programs you put in place, what the commercial plan will look like, but at the end of the day, the strength of the clinical data will determine what kind of reimbursement that we will be able to command, and therefore also the strength of the case that we can make to clinicians in the market.

So, I'd like to speak more to that once I've got more clinical data in hand and then we can share what the commercial plan will look like.

Hassan Al-Wakeel
Analyst, Barclays Capital Securities Ltd.

Q

Perfect. Thank you. I'll jump back in the queue.

Operator: Next question comes from Jack Reynolds-Clark from RBC Capital Markets. Please go ahead.

Jack Reynolds-Clark
Analyst, RBC Europe Ltd.

Q

Hi, there. Thanks for taking the questions. I also had three, please. Just starting with Kerecis, and DFU, there's some different commentary coming from the different manufacturers around the scope for the products included on the reimburse list, the benefit from the reduced – [ph] sort of (00:32:53) number of products available on the market, given the potential for the LCD to kind of lead to the market to contract.

Can you talk us through what's – what kind of gives you confidence that Coloplast will see volumes increase in DFU in April. And so, given this confidence, has your thinking around medium term margin for Kerecis developed at all?

Second question is on the manufacturing ramp-up costs. So, I was wondering if you could quantify what costs from this have been included in the cost of goods in the quarter? And remind us of your expectations for these costs going through the remainder of the year.

And then, my last question is on Lary, wondering whether you can quantify the contribution from the increase in patients versus the increase in patient value, and how much kind of runway you see for patient value to increase over the medium term. Thank you.

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

A

So, why don't I take question one and question three, and then Anders can take the question on manufacturing ramp-up costs. So, on LCD, we are on the final policy. You will know now, like I commented on that the implementation date has been postponed. We are on the list for DFUs but not for BOUs. We've also indicated that BOUs today is low single digit share of our portfolio.

It's too early to talk about what kind of pickup will happen. We are, of course, deep in the operational planning on this and if you imagine that we have a reduction from a couple of hundred products to less than 20, that will be, of course, quite a bit of commercial opportunity in that space. We are ready. We have a volume of product. We have the team in place and exactly how it's going to play out, we don't know yet. We don't know yet.

So, the way that we're thinking about Kerecis is continuing the momentum and of course, it has the opportunity to accelerate if this plays out in our favor.

When it comes to Lary, I'm very happy with the performance from Atos on both Lary and Trache. The growth model for the Lary business is part volume, so basically winning patients, getting them on to right product and right product mix and the right usage of product, and this has always been the growth formula. And you should remember that the Atos business runs a – quite a large share of the business in our own channel.

So, we are speaking with patients on a monthly basis. We can introduce new products to patients on a monthly basis. And as you heard the example now from France, where we've worked on reimbursement changes over the past year and a half, we've managed to get the allowance for heat moisture exchangers moved from one to multiple. And of course, that allows us to inform all patients that this reimbursement has taken effect and it drives a relatively immediate pickup.

So, it will be – my expectation is that it remains a key component of driving good service to patients, right product, right volume of product, right mix.

Anders Lonning-Skovgaard
Chief Financial Officer & Executive Vice President, Coloplast A/S

A

Okay, Kristian. And Jack let me take your second question around the manufacturing cost. So, as you saw in our numbers, gross margin for Q1 is ballpark at the level of last year's Q1 gross margin level. It's driven by a couple of things. So, first of all, the input cost pressure is coming down. We are seeing that the low inflation levels are, you can see, impacting our input costs in a positive way.

We have hedged energy prices at a lower level and that is then partly offset by the higher manufacturing cost related to the ramp-up in Costa Rica. So, we are still ramping up in Costa Rica and then we are initiating the ramp up in Portugal where we are starting the investments, especially into [ph] white color (00:37:26). And the other one that is offsetting the positives, that's the foreign exchange rates. So those are the key moving parts on our gross margin for the first quarter.

Jack Reynolds-Clark
Analyst, RBC Europe Ltd.

Q

Thanks very much. Cheers.

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

A

Any follow-up?

Operator: The next question comes from Richard Felton from GS. Please go ahead.

Richard Felton
Analyst, Goldman Sachs International

Q

Thank you very much. Good morning. Just two questions for me, please. The first one on Luja. I was wondering if you can give any additional color on the traction you're seeing in the Women's products. I think you've added a further four markets since your full-year results. Just interested to get feedback on those additions and also how we should think about phasing of further market rollouts from here. That's the first one.

And the second one, just a follow-up on gross margin, particularly the ramp-up costs in Costa Rica and Portugal. Would it be possible to sort of quantify the size of that headwind on gross margin and then thinking about the forward-looking impact, how we should think about that headwind in future periods and when it starts to reduce? Thank you.

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

A

Thanks, Richard. So, the Luja rollout continues. The Male product is in top 12 markets now. We are in nine markets now with Luja Female and it's getting – it's getting good traction. I'm looking at similar pickup curves to the Male product. Of course, for the purposes of moving the entire catheter franchise, we need a full offering to both males and females. So, I'm glad to see that. And you'll see that rollout continue. We will be in the same market, so in top 12 markets, also with the Female product, that rollout will be happening during this year.

Anders Lonning-Skovgaard
Chief Financial Officer & Executive Vice President, Coloplast A/S

A

Yeah, and to your second question around the gross margin, so I talked to the moving parts for Q1. When I look at the full year, I'm expecting our gross margin to improve, to sit around the 6% to 8% level as we have guided for. So, it's similar moving parts as Q1. So, we are looking at a lower pressure from input cost. We are – we have hedged the energy prices at a lower level.

Compared to last year, we also have increased salaries in Hungary at a mid-single digit level, whereas last year it was a double-digit level. And then, yes, we are ramping up, as I said earlier, in Costa Rica still, and we are also starting up in Portugal, and that is offsetting some of the benefits we see on the other categories.

And then, the final thing is the foreign exchange rates. We had a negative – or we have headwind on that in Q1 and I'm expecting from Q2 we will start to see some tailwind from FX. So, those are the moving parts for the full year gross margin.

Richard Felton
Analyst, Goldman Sachs International

Q

Thanks, Anders. And maybe just a follow-up on the ramp-up costs in Costa Rica and Portugal. I mean, should we think about that getting potentially more of a headwind through the year, neutral or slightly better from here in terms of the phasing of those projects?

Anders Lonning-Skovgaard
Chief Financial Officer & Executive Vice President, Coloplast A/S

A

I'm expecting a similar level, but remember also throughout the year as normal, our revenue – absolute revenue will be at a higher level. So, we will also have some scalability as a consequence of higher absolute revenue throughout the year, but especially the ramp-up in Costa Rica will start to – yeah, to be finalized over the course of the year.

Richard Felton
Analyst, Goldman Sachs International

Q

Got it. Thank you very much.

Operator: The next question comes from Anchal Verma from JPMorgan. Please go ahead.

And we now have a question from Lisa Clive from Bernstein. Please go ahead.

Lisa Bedell Clive
Analyst, Bernstein Autonomous LLP

Q

Hi. Three questions for me. First of all, women's incontinence, just thinking through when the declines there will [ph] stop being (00:41:38) a big headwind. I believe, from your various disclosures that women's incontinence is probably around 11% of Urology in recent years, [ph] and with (00:41:48) perhaps the business declining almost 50% last year.

So, just wanted to confirm that that's now maybe 5% of that portfolio and just trying to understand whether we're nearly at the bottom of that decline and when will it be annualized.

Second of all, for BLU, so the Medicare patients in the physician's office, [ph] you're obviously not (00:42:09) included. Apologies if I missed it, but do you have a trial underway? Is this an area where you're focused on trying to get reimbursement or because you tend to be more focused on the hospital channel, you'll just, sort of, let that go.

And then, lastly on Heylo, just would love an update [indiscernible] (00:42:28) outlook for reimbursement and market entries and just thoughts on the ramp up over the next 12 to 18 months. Thanks.

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

A

Thanks, Lisa. Three good ones. First off, on Women's in Urology, the ...

[Technical Difficulty] (00:42:51)

Operator: Sorry, we lost the connection with the speaker. We have now a question from Julian Dormois from Jefferies. Please go ahead.

Julien Dormois
Analyst, Jefferies GmbH (FR)

Q

Hi. Good morning. But I think you've actually lost the connection with management, I guess. Am I right or – hello?

[Technical Difficulty] (00:43:27)

Operator: We lost the connection with the speakers. The conference will be continued shortly.

[Technical Difficulty] (00:43:28)

Operator: You are now connected again.

A

Okay. Two seconds. The headphone stopped working. Can we just try it on?

Anders Lonning-Skovgaard
Chief Financial Officer & Executive Vice President, Coloplast A/S

A

No.

Operator: Julien, you can go ahead with your question now.

Julien Dormois
Analyst, Jefferies GmbH (FR)

Q

Yeah.

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

A

Yeah. Can I just check that you have audio from our side?

Julien Dormois
Analyst, Jefferies GmbH (FR)

Q

Yes. Yes, we do.

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

A

Okay. Apologies. I – before we move – Julien, before we move on to the next question, I think I owe Lisa – Lisa had a few questions that I would just – I would just address.

Women's Health, we had flat performance in the quarter. So, the business – the business decline has stopped and of course, the decline last year has taken the share of portfolio down. Now, the strong focus is to drive the Atos product and the clinical evidence that we have around that product, to serve customers. And of course, the big news for that portfolio is going to be the INTIBIA – the INTIBIA product. But the business decline has stopped.

On the question of BLUs for Kerecis, we have a trial underway. And of course, we expect to also be – to be admitted once that trial has concluded. And then finally, the question on Heylo and the payers in Germany, unfortunately, I have no news to report on that side. The German authorities have not provided a – an answer to us.

With that, I think we can go on to you, Julien.

Julien Dormois
Analyst, Jefferies GmbH (FR)

Q

That's very fine. Hi. Good morning, everyone. So, I also have three questions, if I may. The first one relates to Voice and Respiratory Care. Obviously a pretty strong Q1, but I just noticed that the comps get significantly tougher for the remainder of the year. So, how should we think about growth in that space? And you mentioned some positive reimbursement evolution. So, is there anything there that could explain the relative confidence in sustained momentum for the next two quarters?

Second question relates to Kerecis and the delay in the implementation of the LCDs. There's been also some speculation around that maybe could be due to some political backlash and some providers asking for more time [indiscernible] (00:46:36) of confidence that will actually take place in April – from April onwards.

And the third question, could you just shed more light on this €26 million management restructuring charge that you had in Q1? Sorry, if I missed that, but that's a pretty sizable amount. So, just curious as to what it relates to.

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

Julien, thank you. Let me take the first two and then Anders will take the last question. Voice and Respiratory Care, it is – of course, when you run a double-digit growth business, the comps gradually get harder. I'm expecting the business to deliver a year-round double digit.

One of the – one of the call-outs that's positive on the Laryngectomy side is the increased reimbursement in France. We've guided for the business when we acquired it that it would deliver between 8% to 10%. We are – we're definitely comfortable in that range and I'm glad we're starting at the high end of the range. The Tracheostomy business is doing well. Good momentum. So, you know, all told, really, really good progress also on the integration side.

On the Kerecis LCD, the delay, as we understand it, is following a freeze of all regulatory guidance that's not yet in effect by the new US administration. So, it's not, if you will, a something that is LCD specific, but it's one of these blunt instruments that have been made use of by the incoming US administration.

There is, of course, always uncertainty with these types of transitions. But, for now, I have no evidence to suggest that this would not go into effect come April.

Anders Lonning-Skovgaard
Chief Financial Officer & Executive Vice President, Coloplast A/S
A

And Julien, your third question related to the DKK 26 million that's related to the leadership changes we made back in November.

Julien Dormois
Analyst, Jefferies GmbH (FR)
Q

All right. Thank you very much.

Operator: The next question comes from Maja Stephanie Pataki from Kepler Cheuvreux. Please go ahead.

Maja Pataki
Analyst, Kepler Cheuvreux SA (Switzerland)
Q

Yes. Good morning. Thank you very much for taking my questions. I have two. First of all, Kristian, I was wondering if you could provide us a bit of an update on what you're seeing in US chronic care sales post the disruption of the distribution center. In a call last year – late last year, you mentioned that you will only – it will take you some time to understand whether there have been some market share losses and whether you can claim back those patients. I was wondering if you have more color to share on that.

And then my second question, how are you seeing the situation in China evolve? Has there been any material or noteworthy change that you would like to talk about? Thank you.

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

Thank you, Maja. Two good questions. The US business, strong first quarter here, just remember we had relatively benign comps also for this quarter. I will say, when I look at the sales momentum of the business, it's sitting at high single digit suggesting that we've come through the rough without too much damage. But of course, I'd like a few more months and quarters under my belt before calling final verdict on that. But, so far so good. I am expecting the business to deliver a high single digit growth year.

In China, hospitals look good. Momentum in hospital look good. But I'd say on the whole, really no change. I'm expecting a mid-single digit year. It is – was a mid-single digit Q1. The outlook for the economy and the way the consumers behave, we're really not seeing anything that makes us more optimistic at this stage.

Maja Pataki
Analyst, Kepler Cheuvreux SA (Switzerland)
Q

Great. Thank you very much.

Operator: The next question comes from Niels Granholm-Leth from Carnegie. Please go ahead.

Niels Granholm-Leth
Analyst, Carnegie Investment Bank AB (Denmark)
Q

Thank you for taking my questions. Two, if I may. Could you first talk about the sustainability of your R&D to sales ratio, which seems to be on a continuous slide down? Secondly, could you talk about your – expected pay tax rate once the transfer of your IP rights to Denmark has been completed. Thank you.

Anders Lonning-Skovgaard
Chief Financial Officer & Executive Vice President, Coloplast A/S
A

So, thanks a lot, Niels. So, let me take your two questions. So, first of all, in terms of R&D to sales ratio, it was around 3% for Q1. There's a bit of timing and then also, please remember, we have now included Kerecis and Atos where the ratio is lower than the total ratio.

I'm expecting the ratio for the year to sit something around 3%, 3.5% of sales. So, that's how we look at the R&D to sales ratio for this financial year.

In terms of your second question around the IP transfer and the tax, so as I explained earlier, we have done this because we are now starting up the integration of Kerecis into our IT infrastructure and we will complete that work later this year. And as part of that, we are also moving the IP rights of the Kerecis to Denmark and that has an extraordinary impact on our tax rate for this financial year.

In terms of the payments, so the cash flow, we will start to see that from the financial year 2026, 2027 and onwards and that will be a net effect of around DKK 1.3 billion, DKK 1.4 billion from, as I said, 2026, 2027. So, that's my high-level assumptions.

Niels Granholm-Leth
Analyst, Carnegie Investment Bank AB (Denmark)
Q

And for how many years would you benefit from that?

Anders Lonning-Skovgaard
Chief Financial Officer & Executive Vice President, Coloplast A/S
A

So, the overall benefit, it's around the seven years that we are expecting. So, that's my assumption.

Niels Granholm-Leth
Analyst, Carnegie Investment Bank AB (Denmark)
Q

Thank you.

Operator: The next question comes from Aisyah Noor from Morgan Stanley. Please go ahead.

Aisyah Noor
Analyst, Morgan Stanley & Co. International Plc
Q

Hi. Good morning. Thanks for taking my question. I have just two. The first one is on the Continence Care business. Are you able to break out the intermittent catheter segment growth in particular and whether you are seeing any solid share wins there? Just would have thought with the launch of a new flagship platform like Luja, you might see a stronger growth development for Continence in the first quarter.

And then, my second question is a follow up on INTIBIA. Does your guidance for 2025 contemplate any sales contribution from, or commercial investment into the launch of this product? Or, are you in kind of a wait-and-see mode until you get the pivotal data in June and then you will announce some commercial initiatives in the third or fourth quarter? Thank you.

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

Thanks, Aisyah. Two good questions. So, the Luja launch continues. It's doing well. So, we can see a very consistent market share gains on the Male side. We started with the Male product, which is about 60% of the market, bit more than 60% of the market. We're now rolling out Female. I'm seeing a similar pick-up curve on launch. So, I'm also expecting, of course, once we have a full offering in the market that you're going to see – you're going to see impact on the franchise.

Bear in mind that when we report the Continence Care business, we have two of the product categories in there. One is our bowel management or Bowel Care franchise and our Collecting Devices business, but the impact on the business this quarter is really phasing in EM. The underlying growth in the Catheter business is strong and it's picking up.

When it comes to INTIBIA and investments there, there will be some cost this year that – where we're basically preparing for that in ahead of the launch, but of course, we do not start to spend significantly until we know the strength of the clinical data. And I don't have visibility to that until we get into the other side of summer of this year. Commercialization would happen in 2025, 2026 and I forgot who I asked the question earlier, but the entire investment thesis will rest on the strength of the clinical data and the resulting reimbursement level. So, the clinical data is absolutely critical for decision on investment level, but there's a bit of cost already.

Aisyah Noor
Analyst, Morgan Stanley & Co. International Plc
Q

Thank you. If I could follow up with one question on the Wound business.

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

Yeah.

Aisyah Noor
Analyst, Morgan Stanley & Co. International Plc
Q

I think you flagged some destocking behavior in December in anticipation of the LCD coming into effect in February. How has customer behavior evolved since then and could your Kerecis growth come well above the 30% target this year, given this combination of delayed implementation and then inclusion for DFUs?

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

So, we haven't seen too much change in terms of customer behavior. So – the, you know, all the products that are at risk of, or that will disappear from the market when the final policy takes effect are of course now still in market. There are a number of companies still promoting them and it is still too early to speculate. But like I said to a – one of the previous callers who asked the question about this, of course, this creates a – an opportunity if we reduce the number of products from 200 to less than 20. We have prepared for the opportunity in terms of ensuring that we've got significant volume ready in the market. And of course, we've got commercial plans. We are in close dialogue with customers about it. But the final effect, TBD.

Aisyah Noor
Analyst, Morgan Stanley & Co. International Plc
Q

Thank you very much.

Operator: The next question comes from Marianne Bulot from Bank of America. Please go ahead.

Marianne Bulot
Analyst, BofA Securities Europe SA
Q

Thank you very much for taking my questions. The first one is a quick follow-up on Wound Care. Could you provide maybe an update on the Kerecis trends you're seeing today and especially trying to understand if you've seen some customers already shifting from competitor's product to Kerecis, or, you know, asking for samples and maybe trying to prepare ahead of the LCD implementation?

And my second question is on Voice and Respiratory. Could you share if there are any key countries yet to prove reimbursement like you had Poland, for example, here, and how big of an opportunity it could be for the rest of this year? Thank you.

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

So, on Kerecis, of course, there's been a lot of noise in the market related to this. Many customers are asking questions about how the policy is going to pan out. And of course, we are active in those dialogues and some customers are, of course, also getting samples. We've also seen a few orders, but we haven't seen a major market shift.

So, we expect that once we get closer to implementation date, more customers will change behavior. And like I said to the previous caller, we are ready.

On Atos, this is – this work of opening up access for the products and reimbursement for the products is part of the growth model. It's by the way also part of the growth model for the Continence business and the Ostomy business. And I've previously talked about those businesses. The Otomy business has grown for 70 years. The Continence business has grown for 35 years. The Atos business right now is a 35-year-old category. It's still growing. Penetration is relatively low. So we've got good penetration in Northern Europe. You go to Southern Europe, we've got about half the – half the penetration of Northern Europe of treatment, and we move to the US penetration is lower and in EM there's hardly any use.

So, this will remain a growth lever for many years to come and we've got – at any given point in time, we've got a portfolio of projects that we're working on to open reimbursement, so you sort of – you will probably also hear in the coming years, hopefully more good news. But it's not one where we have, you know, one waiting in the immediate pipeline, that we would expect would dramatically change the trajectory of the business.

It's part of running a business that's sitting comfortably in the 8% to 10% growth range.

Marianne Bulot
Analyst, BofA Securities Europe SA

Q

Okay. Thank you very much.

Operator: The next question comes from Martin Brenøe from Nordea. Please go ahead.

Martin Brenøe
Analyst, Nordea Bank Abp (Denmark)

Q

Hi. Thank you very much for taking my questions here, Kristian and Anders. I'll try to keep it to just three questions, please. The first one would be on Emerging Markets, which has come out a bit slower than the double digits that you are aiming for and that you expect to come back in the next quarters. Can you maybe just put some color on how much of that is just phasing of orders? How much is maybe less hyperinflation? And how should we see this going forward? Is that already a Q2 thing that we are going to see a pickup or how will that look like? That's the first question.

And then the second question would be, I think, Kristian you have implied a few times on this call that you are ready for an acceleration after the LCD is implemented on Kerecis. But, I guess you expected this to be effective in two weeks from now. So, have you ramped up sales costs here in Q2 in anticipation of the LCD implementation that we're going to see in the numbers? That would be the second question.

And then just the third question is a bit to understand if we should potentially see anything on this, but there have been some investigations in Denmark concluding that Coloplast is margin squeezing distributors with its dominant position. Just – are you aware of any other markets where Coloplast has a dominant position and [ph] where they are (01:01:42) undergoing similar position – investigations that we should be aware of? That would be the third question. Thank you.

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

A

Thank you, Martin. Three good questions. On Emerging Markets, remember tough comps last year. We grew, I think, 19% last year in the quarter. Very, very strong quarter. This is largely phasing. It is a more volatile region. As you know, it's phasing related to Eastern Europe, Russia and a bit of Middle East. I am expecting – I'm expecting the region to deliver a high-single digit growth year.

LCD, I have the footprint I need for now. So, you could say that the number of people that we've got in market were it's not like we've ramped up dramatically. We're trying to run a very strong growth business. Of course, every year, we put on salespeople and try and get them onboard and make them effective.

Part of the commercial model here will be just to really become very good at that. We continue to deliver on it, but we have the footprint. We're ready. The fact that it comes two months later doesn't really change the plans. So, I'd say, the Kerecis team also grew, as you can see, 32% in the quarter. It's not like we – we've run out of what to do and opportunities to pursue. So, more to come once we see the go-live date.

On the Danish court case from the competition authorities, I'm not going to comment too much. I'll say we are in fundamental agreement with the verdict. We have appealed it and it will play – it will play its way through the appeal system and courts. We are not aware of any type of case like that anywhere else in the portfolio of countries that we serve.

Martin Brenøe
Analyst, Nordea Bank Abp (Denmark)

Q

That's very clear. Thank you so much for the thorough answers.

Operator: The next question comes from Giang Nguyen from Citi. Please go ahead.

Giang H. Nguyen
Analyst, Citigroup Global Markets Ltd.

Q

Hi, guys. Thanks for taking the question. I am following the trend of having three questions as well. The first question is just a quick check. In terms of your full-year guidance on margin, in this release, you said that you are expecting to see margin improvement initiatives in AWC, so in Advanced Wound Care, whereas in the previous release you said in Advance Wound Care excluding Kerecis. I was wondering if there is anything to read into this change of wording. Perhaps, is there any cost savings identifying Kerecis? So that was my first question.

The second question is in terms of the US distribution center cost, is there any more cost that we should be expecting in the remainder of this year?

And for my last question, thinking of the Bladder Health recall, I understand that sales have been resumed in February, but how do you assess the risk of lost sales for the catheter and the drainage products in question rather than being recovered later in the year? Thanks.

Anders Lonning-Skovgaard
Chief Financial Officer & Executive Vice President, Coloplast A/S

A

All right. Let me start with the two first questions. So, in terms of margin guidance for the year, I'm expecting that the divestment of the Skin Care, including some margin optimization activities within the Dressings business, will contribute with around 30 basis points to our margin guidance. So, I hope that clarifies the first question.

On question number two, whether we are expecting more cost related to the distribution challenges in the US, I'm expecting a bit more here in Q2 in the level of DKK 10 million. That's my current estimate.

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

A

And then, finally, Giang, to your question on Bladder Health, of course, there's always a risk when you have quality problems like we've been through that we've lost some customers. We are quite optimistic. It's been a relatively quick process. We've got product in market now waiting to be released and we are seeing a good demand. There are a number of our competitors in the market who are also – who've also had some supply issues. So, there's strong demand in market. So, I'm optimistic that we're going to recover the significant majority of what affected us here in Q1.

Giang H. Nguyen
Analyst, Citigroup Global Markets Ltd.

Q

Thanks, guys.

Operator: The next question comes from Carsten Lønborg Madsen from Danske Bank. Please go ahead.

Carsten Lønborg Madsen
Analyst, Danske Bank A/S

Q

Excellent. Thank you very much. Actually, I only have one or two questions left. The first one is, a way to look at the LCD and the new reimbursement you're securing for the Kerecis price could maybe be to talk about individual patient value. So, one thing is how many new patients you will be able to get, but what will be the value per patient once this is implemented? Either you're on a yearly basis being allowed to use more dressings at a lower price. What do you think will happen here?

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

A

So, from memory, we'll – I'll just check – Aleksandra will just check while I'm answering. From memory, there will still be, I think, an opportunity to use six dressings as part of the of the updated policy.

When you look at our current use in market, when we look at the average of our current use, it is sitting around five to six. And Aleksandra is just correcting me that the value per patient that's covered by the LCD is actually 8 dressings over 12 weeks. Now, it's a little difficult to predict because that doesn't mean that everybody will be using eight. Of course, it will mean – it's basically a number where you could use up to. So, the final impact on patient value, I don't know yet.

Carsten Lønborg Madsen
Analyst, Danske Bank A/S

Q

Is it from [indiscernible] (01:07:46) that the patients are using less to save money because maybe not fully reimbursed? I think there's a room for [indiscernible] (01:07:54)...

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

A

No, I'm hoping – hoping it's because their wounds heal, Carsten.

Carsten Lønborg Madsen
Analyst, Danske Bank A/S

Q

Okay. Of course.

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

A

So, the intent of the policy is to drive good clinical outcomes. And of course, if you're healed after you've used five or six dressings, then you shouldn't be – you shouldn't be using more product.

Carsten Lønborg Madsen
Analyst, Danske Bank A/S

Q

Okay. And then, secondly, maybe [indiscernible] (01:08:18) you have this Luja with the Micro-hole Technology, but some of your competitors are running some campaigns [ph] to end (01:08:25) Micro-hole Technology. Are you feeling anything in the market in terms of loss of market share pressure from this marketing campaigns?

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

A

No.

Carsten Lønborg Madsen
Analyst, Danske Bank A/S

Q

No. Okay.

Operator: Ladies and gentlemen, that was the last question. I would now like to turn the conference back over to Kristian Villumsen for any closing remarks.

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

So, I want to apologize that we lost connection there for a couple of minutes during the call. We look forward to engaging with all of you on the road here over the coming days and weeks. And please reach out to our Investor Relations department, should you have any follow-up questions related to today's call. Thank you very much.