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Coloplast A/S (CLPBY.DK)

Q2 2021 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Welcome to the Coloplast Q2 Conference Call. Throughout the call all participants will be in the listen-only mode, so there's no need [ph] for me to try and mute (00:00:19) your lines. Please note, this call is being recorded.

I'll now hand the floor to our speakers in your meeting.

Kristian Villumsen

President & Chief Executive Officer, Coloplast A/S

Good afternoon, and welcome to our first half 2021 conference call. My name is Kristian Villumsen, 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 like we usually do, and then we'll open up for questions. Please turn to slide number 3.

After an encouraging start to the year in Q1 we had expected a weaker second quarter due to a large stocking impact in our baseline and the continued negative impact of COVID-19 on our European Chronic Care business. We delivered 2% organic growth, a 33% EBIT margin before special items, and a return on invested capital before special items of 42%. Adjusted for the DKK 150 million stocking effect in Q2 of last year, organic growth was around 5% for the second quarter.

We maintain our organic growth guidance for the full year of 7% to 8%. On the EBIT margin we've upgraded our guidance from 31% to 32% to 32% to 33% before special items. The revised EBIT margin guidance reflects

efficiency gains and lower costs across the business due to COVID-19. We're optimistic about the COVID-19 vaccine rollout, but the pandemic is still very much at large and our priorities remain clear; keep our people safe, continue to serve our customers, and maintain business operations.

At the same time, we're executing on our strategic priorities within the Strive25 strategy, and today, I'd like to mention just a few highlights. On innovation, we're making good progress on all key projects across our business areas. Within Ostomy and Continence Care, the clinical performance program is on track. We've hired a new Senior Vice President for R&D, Alexis Roberts-MacIntosh will join us in July and Alexis comes with a wealth of experience from innovation work across the healthcare space and we look forward to welcoming her here to Coloplast.

Within Interventional Urology, the feasibility study for our overactive bladder product within Nine Continents Medical has been completed with encouraging results. We're in the process of finalizing the pivotal study design that will be submitted to the FDA for approval later this month.

In our Chronic business in the US, we achieved a key milestone for our Ostomy business this quarter by securing access to the Vizient GPO, which is the largest group purchasing organization in the US. With Vizient and Premier, we now have contracted access to more than 75% of the US hospitals and we will invest to strengthen and expand our salesforce.

In our US Continence Care business, we continue to grow our dealer business. We've made a few tuck-in acquisitions during the quarter to broaden our insurance coverage. In the markets where we have good access, we're executing on investments in strategic areas and those include Asia and Interventional Urology in the US.

On our sustainability strategy, we've also made key progress this quarter on our production waste recycling ambition. Through collaboration with a local Hungarian waste management supplier, a large share of our production waste can now be used for rubber flooring for playgrounds and sports facilities. With 58% of our production waste recycled, we have exceeded our 2025 ambition of 50% and we will set and communicate a new ambition later this year.

We monitor our organizational health closely and have invested in a number of precautionary measures, initiatives and tools, focusing on employee health and engagement to fight corona fatigue. We conducted an employee engagement survey in April. We're very pleased to see a score of 8.2 against a healthcare industry benchmark of 7.9.

Within Global Operations, we're making solid progress on the Global Operations Plan 5. Our first high-volume production site in Costa Rica became operational this quarter, and the construction of the next volume site has already begun. We've begun to realize cost savings from our automation activities and we've seen efficiency gains in our high-volume production sites in Hungary.

Moving to our results this quarter, a few highlights include continued strong momentum in emerging markets with 14% organic growth. The growth continues to be broad-based and especially strong in China and Latin America. We're pleased to see the continued recovery in elective procedures within our Interventional Urology business. With 9% organic growth in the quarter, our Wound Care business continues to post solid growth driven by Europe, China and our newly launched Biatain Fiber portfolio.

Our challenge continues to be in Europe within the Chronic Care business, and in particular, in the UK. We assumed that the worst is now behind us and that the situation will gradually improve in the second half of our

financial year as vaccines have rolled out. In the UK, the scale of the NHS waiting list is large, but Ostomy Care is expected to benefit from the prioritization placed on accelerating cancer diagnosis and elective surgery levels.

Continence Care is expected to recover a bit more slowly because of intermittent catheterization and bowel management treatment being deprioritized. As our Chronic Care business recovers during the second half, we expect the recovery in Continence Care to lag Ostomy Care. Today, the board of directors approved a half year interim dividend of DKK 5 per share corresponding to a total interim dividend payout of approximately DKK 1 billion.

Now, let's take a closer look at today's results, and ladies and gentlemen, please turn to slide number 4. In Ostomy Care, organic growth was 5% for the first six months and growth in Danish kroner was 1%. In Q2, organic growth was 4% and growth in Danish kroner was 1%. Growth continues to be driven by our SenSura Mio and Brava supporting products. Our SenSura and Assura/Alterna portfolios continue to post solid growth in emerging markets.

Growth in Q2 was negatively impacted by stock building in Europe in the comparison period. Lower growth in new patients in Europe due to COVID-19 also weighed on growth as explained earlier. On a positive note, emerging markets region continues to be the strongest contributor to growth, led by China, Latin America and tender deliveries in Russia. China posted solid end market sales and benefited from an easier baseline, and the US also contributed nicely to growth.

In Continence Care organic growth was 3% for the first six months and growth in Danish kroner was down by 1%. In Q2 organic growth was 0% and growth in Danish kroner was down by 3%. Growth continues to be driven by the SpeediCath ready-to-use and intermittent catheters, with good contribution from the SpeediCath flex portfolio, as well as our SpeediCath compact and standard catheters. Sales growth for Peristeen products and collecting devices has been negatively impacted by COVID-19.

In Q2, organic growth was flat due to the large stocking impact in the baseline as well as lower growth in new patients in Europe and the US. As explained earlier, intermittent catheterization treatment and bowel management treatment has not been prioritized during the pandemic as these treatments can many times be postponed and there are alternatives. On a positive note, we continue to see solid growth rates in South Korea and Japan where reimbursement for catheters was introduced a few years back.

In Interventional Urology, organic growth was 4% for the first six months and growth in Danish kroner was down by 1%. In Q2, organic growth was 3% and reported growth was down by 2%. Growth continues to be negatively impacted by COVID-19 but the trend from Q1 continued into Q2 as elective procedures continued to rebound. In particular, March was strong and encouraging. Men's Health continues to lead the recovery in the US, delivering another quarter of double digit growth. Towards the end of the quarter, we also began to see a pickup in women's health procedures.

COVID related lockdowns inhibited surgical procedures in the largest EU markets in Q2, but overall, our single use devices business posted growth in Europe for the quarter. In Wound & Skin Care, organic growth for the first six months was 1% and reported growth in Danish kroner was down by 3%. The Wound Care business in isolation delivered 7% organic growth for the first six months, and in Q2 Wound & Skin Care delivered 1% organic growth and the Wound Care business in isolation delivered 9% organic growth. The Biatain Silicone and Biatain Fiber portfolios were the main contributors to growth driven by France, Germany and Spain. Biatain Fiber continues to deliver solid contribution to growth.

China posted another quarter of solid growth, which was also helped by a weak comparison period, and the European hospital business continues to be negatively impacted by COVID-19 but the community business is performing well. In the US, our Skin Care business continues to report negative growth due to weaker demand, and our Compeed contract manufacturing business detracted significantly from growth in the quarter due to lower demand as a result of the pandemic.

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 number 5.

Anders Lonning-Skovgaard

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

Thank you, Kristian, and good afternoon, everyone. Reported revenue for the first six months decreased by DKK 44 million or 0.5% compared to last year. Organic growth contributed DKK 342 million or 4% to reported revenue. Foreign exchange rates had a significant negative impact of DKK 389 million or around 4% on reported revenue as expected due to the depreciation of the US dollar, British pound and several emerging markets currencies against the Danish kroner and in particular, the Argentinian peso, Brazilian real and Russian ruble. The depreciation in the US dollar accounted for approximately 50% of the negative currency impact.

Please turn to slide 6. Gross profit amounted to around DKK 6.5 billion corresponding to a gross margin of 68% which was on par with last year. The gross margin was positively impacted by savings from Global Operations Plans 4 and 5. On the other hand, the gross margin was negatively impacted by increasing costs in Hungary due to salary inflation and labor shortages as well as extraordinary costs related to COVID-19 outbreak and ramp up costs at our new volume site in Costa Rica.

The gross margin includes a negative impact from currencies of around 40 basis points. The gross margin in Q2 benefited from positive product mix, efficiency gains at our Hungarian taxes and lower depreciation. The distribution to sales ratio for the first six months came in at 28% compared to 29% last year. The 5% decrease in cost reflects cost savings from lower travel and sales and marketing costs due to COVID-19, which was partly offset by investments in sales and marketing activities in Asia, Interventional Urology and consumer and digital initiatives.

The [ph] admin to sales (00:12:14) and R&D to sales ratios for the first six months came in at 4% of sales, on par with last year. In Q2, we took a further provision of DKK 200 million to cover costs in connection with the mesh litigation, which is booked as special items. The lawsuits are taking longer to settle than previously anticipated, in part due to COVID-19, which has led to an increase in legal costs. The increase brings the total provision to DKK 5.85 billion. We have now settled around 97% of the known cases. In December 2020, the Coloplast MDL was closed and we are seeing a very low inflow of new cases.

Overall this resulted in increase in operating profit before special items of 3% for the first six months corresponding to the EBIT margin before special items of 33% compared to 32% last year. The EBIT margin contains negative impact from currencies of 70 basis points mainly related to the depreciation of the US dollar against Danish krone.

Please turn to slide 7. Operating cash flow for the first six months amounted to around DKK 2 billion compared with around DKK 1.6 billion last year. The path of development in cash flows was due to a gain on financial items, a decrease in income tax paid and an increase in operating profit before special items of DKK 99 million.

Cash flow from investing activities was impacted by increased investments in optimization, IT, and the new factory in Costa Rica. Capital investments amounted to DKK 509 million for the first six months or 5% of revenues, on par with last year.

The acquisition of Nine Continents Medical reduced the cash flow by DKK 950 million. As a result, the free cash flow for the first six months was an inflow of DKK 446 million against an inflow of around DKK 1.2 billion last year. Adjusted for acquisitions, the free cash flow was up by 23%. Our trailing 12 months cash conversion for the first six months excluding the Nine Continents Medical acquisition was 90%.

Net working capital for the first six months amounted to 25% of sales. For the full year, net working capital is still expected to be around 24% of sales. A new share buyback program totaling DKK 500 million was launched in Q2, and the program is expected to be completed before the end of the financial year.

Please turn to slide 8. For 2021, we continue to expect revenues to grow 7% to 8% organically and 4% to 5% in Danish krone. The guidance assumes double-digit growth in the second half of the year, driven by resumption of elective procedures and hospital activity across business areas as vaccines are rolled out as well as a significant positive impact from the comparison period. Growth in the new patients in Europe in the chronic business is expected to gradually normalize throughout the second half of the year. In Wound Care, we expect continued solid performance in Europe and China.

Due to the depreciation of mainly the US dollar, Argentinian peso, Brazilian real, and Russian ruble against Danish krone reported growth in Danish krone is still expected to be 4% to 5%. The currency impact is based on spot rates as of May 5.

For 2021 we now expect a reported EBIT margin in Danish krone before special items of 32% to 33% from previously 31% to 32% due to efficiency gains and lower cost levels as a result of COVID-19. We estimate that roughly half of these savings will remain in our P&L in the next year from efficiency gains less travel and more digitalized interaction with customers.

After special items of DKK 200 million the reported EBIT margin is expected to be 31% to 32%. The reported margin in Danish krone is expected to be positively impacted by the HUF but this is offset by depreciation of the US dollar and a number of emerging markets currencies against the Danish krone.

To ensure that we emerge strongly from this COVID crisis, we continued to invest for growth in incremental investments into innovation and sales and marketing activities. For 2021 the bulk of the investments will go into intervention urology, Asia, the US sales force expansion, and consumer and digital activities.

The gross margin this year will be positively impacted by operating leverage as well as Global Operations Plan 5. As mentioned previously we have extracted some efficiency from Global Operations Plan 5 earlier than anticipated. The positive impact is expected to be partly offset by cost pressure on Hungary from wage inflation and labor shortages as well as ramp-up of costs to our new factory in Costa Rica and sustainability investments. Overall the expectation is still at the gross margin for 2021 will be around the same level as 2019-2020.

We still expect our net financials to end the financial year 2021 at around DKK 0 million. Based on current exchange rates, the hedging gains that we saw in Q2, and balance sheet items will be offset by losses on cash flow hedges, and especially the British pound as the year progresses.

CapEx guidance for 2021 is still expected to be around DKK 1.1 billion and our effective tax rate is still expected to be around 23%.

Thank you very much. Operator, we are now ready to take questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] And our first question comes from the line of Veronika Dubajova of Goldman Sachs. Please go ahead. Your line is open.

Veronika Dubajova

Analyst, Goldman Sachs International

Q

Hey guys. Good afternoon and thank you for taking my questions. I have sort of two if I can. One is just looking at the emerging markets growth in the second quarter given the easier comps that you had year-on-year, I'm just a bit surprised to not see a better performance there. I don't know if there are some regions in there that might have softened or tenders that might have moved. I'm also kind of contrasting it with a very strong performance from [indiscernible] (00:19:13). So if you guys talk a little bit to what went wrong or maybe didn't go as well as one might have expected in emerging markets and if you're seeing any changes that competitive environment and select markets, that would be helpful.

And then my second question is just trying to think through the sort of progression and the exit growth rate that you saw at the end of the quarter and as you transitioned to Q3. Anders, I know you've given obviously the guidance for the second half, but if you can be a bit more specific as to kind of how you exited the Q2 period. And if you're thinking about the third quarter, what we should be thinking about phasing of organic growth more broadly for the group? That would be helpful.

[Technical Difficulty] (00:19:58-0:20:21)

Kristian Villumsen

President & Chief Executive Officer, Coloplast A/S

A

Okay. Thank you for the question, Veronica. We came through with 14% growth and true there was a bit of an easier comp on China. China is back to good growth in patients and good activity levels but we saw growth being broad based, really nice momentum in Eastern Europe and Russia. Strong tender wins in Russia and deliveries in Russia. Strong growth in LatAm. So I'm looking at a region where I think good momentum overall and we are projecting a good year in EMEA. We're not picking up major events on the competitive side. But of course, we're also noting that other people are investing. I'm seeing broad based growth in EMEA.

Anders Lonning-Skovgaard

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

A

All right. Thanks for the question, Veronica. To the facing of our growth, in the second half so as I mentioned earlier we are expecting double digit growth in the second half of the year. In terms of our third quarter, we are also expecting a very strong Q3 as a result of the baseline we had last year within IU. As you might recall, last year, we had a negative growth within IU of minus 40%. So, we are expecting a strong Q3 as a result of that. But overall, for the second half, we are expecting a double-digit growth, so I hope that answered your question.

Veronika Dubajova

Analyst, Goldman Sachs International

Q

No, that's helpful. And if I can just quickly follow-up on that, just I guess, if you think about the IU business versus 2019, I know we're going back two years, but are you comfortable with the kind of pace of recovery that you're seeing? And I know you mentioned in your prepared remarks that things picked up towards the end of the quarter, if you can quantify that.

Kristian Villumsen

President & Chief Executive Officer, Coloplast A/S

A

So yes, Veronica. The short answer is yes. We are comfortable with where the IU business is at the moment. We're seeing a strong growth in men's health gone up – come off to a good start. The last couple of months, the activity levels are also picking up on the women's health side. So, we definitely have an encouraging outlook for US. Demand has been a bit more subdued on the surgical side in Europe, but with growth in the disposable product. So, we are expecting that things will project or progress as planned for the remainder of the year, also of course helped by the vaccination rollouts and the general pickup in activity.

Veronika Dubajova

Analyst, Goldman Sachs International

Q

Great. Thank you, guys.

Operator: Thank you. Our next question comes from the line of Maja Pataki of Kepler Cheuvreux. Please go ahead. Your line is open.

Maja Pataki

Analyst, Kepler Cheuvreux SA (Switzerland)

Q

Yes. [Technical Difficulty] (00:23:21)

Kristian Villumsen

President & Chief Executive Officer, Coloplast A/S

A

Maja, we can't hear you.

Maja Pataki

Analyst, Kepler Cheuvreux SA (Switzerland)

Q

Can you hear me now?

Kristian Villumsen

President & Chief Executive Officer, Coloplast A/S

A

Yes.

Maja Pataki

Analyst, Kepler Cheuvreux SA (Switzerland)

Q

Hello?

Kristian Villumsen

President & Chief Executive Officer, Coloplast A/S

A

Yes.

Maja Pataki

Analyst, Kepler Cheuvreux SA (Switzerland)

Q

Hey. Sorry. I'm just using a headset. I'd like to start with a question that I knew as well and if we look at – at the performance in Q1 and you know the comparative base and now in Q2 it seems like there has been a bit of a softening. I was wondering if you could talk to that has it been due to the fact that we've seen again a bit you know in line with the pandemic development that we've seen this softness, or do you think that Q1 has seen some pent-up demand come through which has slowed in Q2 just to understand a bit the growth rates compared to last year?

And then the second question with regards to your cost savings that you've mentioned that half of the cost savings are going to be staying with you. Is that something because you're moving your some of your events to more digital platforms that could you just talk to where do you see sustainable longer term savings in which areas? Thank you.

Kristian Villumsen

President & Chief Executive Officer, Coloplast A/S

A

Yeah. Thanks. Thank you Maja for the questions. And so just quickly on IU that the headline perspective on where the IU businesses is positive. It's true that there is always a bit of this demand at the beginning of the year that is related to January and February and deductibles so we've been seeing that pattern also in previous years. I'm looking at the March and April and see a good pickup in growth so we feel confident about the outlook for the year that the IU business is coming back on track.

When it comes to your question about sustained improvements on costs, the banal observation that I think you're going to hear also from a lot of other companies is we're travelling less. So we are taking lessons from the pandemic here. We think we can run the company with less travel, and therefore also cost savings. The marketing initiatives and customer interaction has seen a lot of digital initiatives over the past year. We think some of those are here to stay. And then I'll say also from our Global Operations Plan 5 where we're off to a good start.

When it comes to strategy, there's really no change to the, what we're investing in and our geographical focus areas it's more related to the half.

Maja Pataki

Analyst, Kepler Cheuvreux SA (Switzerland)

Q

Thank you very much.

Operator: Thank you. Our next question comes from the line of Scott Bardo of Berenberg. Please go ahead. Your line is open.

Scott Bardo

Analyst, Joh. Berenberg, Gossler & Co. KG (United Kingdom)

Q

Yeah. Thanks so much for taking the questions. So, I just wonder if you could help understand or expand a little bit your confidence in your share position and maintaining market share and increasing market share. It must be quite difficult to do of course when procedure volumes are falling off. We've seen various competitive numbers from Boston Scientific in comp with that spitting out growth it's a bit ahead of you this quarter. So I just wonder

again can you help us understand your confidence levels in a market share capture place of course your various different businesses.

The second question, please, just again relates to the sustainability of your current high EBIT margins. I appreciate the cost base is somewhat depressed. I think in December or late last year, your Capital Markets event you highlighted a rather flattish mid-term EBIT expectations similar gross margins, similar cost ratios. Is there any reason to revise that upwards now given your reassessment on operating costs or put another way should we expect group margins to dip next year as costs resume? Thank you.

Kristian Villumsen

President & Chief Executive Officer, Coloplast A/S

A

Thank you, Scott. Two good questions. I'll comment on your first question and Anders will take the second.

So I feel good about the company's competitive position. And we've talked about this on numerous occasions that if you want to understand the company, these quarters that we talk about and then where they are don't necessarily give the best snapshots. I think the 7% to 8% of growth for the year, we deliver that. That is a strong performance in the environment and so for chronic.

I feel good about the position, Scott, and how we're going to deliver the year. We have really good portfolios in the market. And they're in general all the newer brands are doing well and driving growth just as we would expect.

If we turn to the two smaller business areas in Wound Care, we've – we just closed a very strong quarter. And with good growth in both China and Europe and good growth contributions from Biatain Fiber. We're hoping to do a lot more on fiber as hospitals open up and we get that broader access. So on Wound Care, good things coming. And of course for IU I would say we're going to have a good year. Part of that is going to be baseline but we're seeing a good growth momentum in the Men's Health. I'm also cautiously optimistic now that the last two months of data on the Women's Health side in the US is a good indicator for how the year will progress. And as you know, we've been investing in ENDO to US.

And then if you look a bit further ahead for growth you will also know that one of my convictions is that growth over the medium and long-term will be tied to – will be tied to your innovation capability. And we've been investing in that now on the chronic side with the clinical performance program for some years. As you know this strategic period will have to deliver these products they are progressing through the pipeline. And I think we have some really strong answers to the needs that are out there for both ostomy and incontinence. But there's some good things also coming for Wound Care.

And then for interventional urology we've ramped-up organic R&D we haven't invested there much historically but we are ramping up now. And as you know we've made too smaller business development M&A moves in that business also the nine continence medical is a move into an adjacency that holds a lot of promise and our investment into Francis Medical it's also a company that we're quite excited about so lots to do on all of them. I feel good about the competitive position, Scott.

Anders Lonning-Skovgaard

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

A

Yes. Thank you, Kristian. And then the second question you have, Scott, around our EBIT margin development versus our slide 25 financial outlook. Yes we are off to a better start. And as I said earlier it's due to strict cost control. It's also corona impact that. As Kristian mentioned earlier, we are travelling less. We are not having as many sales meetings, conferences et cetera. But at the end of the day, we are off to a better start. And that's also

why we are this year guiding for an EBIT margin of 32% to 33% before special items. And I think in terms of our efficiency programs, I think also we can be satisfied on where we are with our [indiscernible] (00:32:02) implementation. And we are seeing production efficiencies in Hungary especially. And that is also contributing to our EBIT margin development.

In terms of next year, as you all are aware, the outset for next year will be where we will land this year. So, we will evaluate our EBIT margin guidance for next year, also when we take additional investments into the equation. But the underlying level of 32% to 33% will be the outset also for, for next year. That's our expectation.

Scott Bardo

Analyst, Joh. Berenberg, Gossler & Co. KG (United Kingdom)



Thanks very much, Anders.

Operator: Thank you. Currently, we've got one further line in the queue for questions. [Operator Instructions] And the next question comes from the line of Kit Lee at Jefferies. Please go ahead. Your line is open.

Kit Lee

Analyst, Jefferies International Ltd.



Thank you, guys. I have two questions please. My first one is just on skin care and contract manufacturing. Just how should we think about the impact of that in the second half? And whether that was to be addressed to the women's skin franchise or if you're expecting growth in that food business segments place?

And my second question is just on continence care. You mentioned that right now patients are being prioritized in that area, I'm just wondering if they have switched to any other solutions or technologies so might not come back to using intermittent catheters once they are allowed to? Thank you.

Kristian Villumsen

President & Chief Executive Officer, Coloplast A/S



So Kit thanks for the question around our Wound and Skin business. And as we talked about earlier our contract manufacturing of Compeed and Band-Aid has been quite negatively impacted due to the corona in the first half. We are expecting, able to come back in terms of growth in the second half and especially in our fourth quarter. If you might recall last year in our fourth quarter, we had a quite a significant negative impact on our consumer business due to the corona situation. So we are expecting our consumer business as we call it will bounce back in the second half of the year and especially in our fourth quarter.

Anders Lonning-Skovgaard

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



And Kit, to your second question. Good one. So for some of the – for some of the patients who were supposed to get on an intermittent catheter treatment who may be put on an intermittent catheter, there is a risk that they may not be able to transition back to IC treatment. We also have quite a significant share of the continence business that is within collecting devices and bowel management and the bowel management procedures are – our assessment is that that they are that those patients are essentially postponed. The underlying demand is not going to go away. The people who wind up on that treatment regime are typically years in progress. And so a delay of some months is not going to fundamentally change that. And for collecting devices we also expect things to come back faster and for collecting devices we also expect things to come back faster but that may be that some patients who cannot transition back to IC on the catheter side.

Kit Lee

Analyst, Jefferies International Ltd.

That's helpful. Thank you.



Operator: Thank you. And we saw the couple further questions come through. The first is from the line of Jannick Denholt of ABG. Please go ahead. Your line is open.

Jannick Lindegaard Denholt

Analyst, ABG Sundal Collier ASA (Denmark)

Hi guys, it's Jannick from ABG. just two quick follow-ups. One of them just being a housekeeping question for you Anders, depreciation and amortizations, can you update us on can say the outlook for the year obviously coming in quite low this quarter comparably to normal. It would be my first one. And secondly, you talked a little earlier on the innovation pipeline. Any chance you can provide a little more color in terms of expectations of timelines. And I'm thinking both on the new ostomy platform as a whole but also this digital accessories. Which one should come first or do they go hand-in-hand and also how much behind is the ostomy platform is the continence platform? Thanks.



Anders Lonning-Skovgaard

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

Thanks Eric. Why don't I start with the in`novation question. So, remember we've talked to you guys about three major projects, one being a new catheter platform. You should expect us to launch that in the first half of the strategic period, the progress is well underway. We have a strong concept clinically relevant concept. We're doing clinical strategy work at the moment that. But we think we've got something there that is going to be quite exciting. On the digital ostomy appliance it's moving into pilots with payers in Germany and in the UK. And remember this is the first time that we put the product into the wild so to speak, where it will be used on a large number of patients.



We're doing the pilots with payers because there is no established payment model for these types of devices. And I'm quite excited to see how these pilots are going to progress. They will run for good years' time before we have a sufficient data to form a conclusion on the impact. And then as we have told you earlier we ran into some technical issues on the new ostomy platform. We are working to resolve those and we'll update you once we have clarity on what that means for launch timeline.

Kristian Villumsen

President & Chief Executive Officer, Coloplast A/S

Yeah and Jannick in terms of your first question around depreciation and amortization. Yes we are developing our depreciation and amortization line is developing better than I earlier anticipated. It's also helped by the currency situation on the Hungarian HUF. So my estimate is that the current run rate for the first half would be a good proxy for the full year. Also please keep in mind and I think we have talked to this in the past that the amortization we have on the [indiscernible] (00:38:52) acquisition and also Comfort Medical will start to be reduced also in the second half of this year and into next year.



Jannick Lindegaard Denholt

Analyst, ABG Sundal Collier ASA (Denmark)

Okay. Thanks.



Operator: Thank you. And we have one further question in the queue so far, that's a follow-up from Scott Bardo of Berenberg. Please go ahead. Your line is open.

Scott Bardo

Analyst, Joh. Berenberg, Gossler & Co. KG (United Kingdom)



Yeah. Thanks very much for the follow-ups. So congratulations on the Vizient Ostomy GPO. I think now you now have relatively good access into the North American hospital market for Ostomy, but unfortunately and to this point you haven't really had the opportunity to capitalize because of the COVID-19 crisis. So and – I wonder Kristian if you could help us understand, what really needs to happen for you to really capitalize on this opportunity now? What degree of investment or the change in go-to-market strategy do you need to adopt to really inflect your US Ostomy position? And so, wonder if you could talk to that a little bit.

And second and somewhat related question, now of course we have a new administration in North America, I wonder whether your US regulatory affairs can share any thoughts about the change in the reimbursement environment or any healthcare policy in the US that we need to consider or is in discussion. Thanks.

Kristian Villumsen

President & Chief Executive Officer, Coloplast A/S



Thanks, Scott. Two good questions. So the Vizient win to us marks a very, very important milestone. So with the Premier win and now the Vizient win, it basically marks the first time that we believe we are competing on a fully equal footing in the US ostomy market. And of course we're going to invest in that.

We have invested, I should say, in the Ostomy business in the US for some time in building a dedicated sales team, building a strong care program and a DTC engine. We've also invested in home health presence. But with the double opening on the GPO side, we have so much expanded access that we are going to enlarge the sales footprint. And combined with the product portfolio that we have in the market, we think that's the recipe.

So, make no mistake, the reason that we have gotten on both of these contracts is a sustained effort, but it is also a recognition that the product portfolio is differentiated, and the signature, if you will, signature accounts that we have started working with and who have converted to Coloplast over the years, over the past few years, have been instrumental in, I think, in persuading the GPOs that we should have broad-based access.

We will be doing that basically now. Our read of what's happening in the [ph] US net (00:42:09) is that the vaccine deployment is happening at scale. We are expecting access to improve. We are seeing it improve in our own figures. So, the time to start investing is now. And then, to your second question, Scott, on whether we're seeing any, if you will, dark skies on the regulatory horizon, not so far, but we are keeping both eyes and ears open.

Scott Bardo

Analyst, Joh. Berenberg, Gossler & Co. KG (United Kingdom)



Very good, and thanks. Perhaps the last follow-up, please. I see on the wires that Anders has had an interview with one of the media companies and there's a discussion about M&A and Coloplast capability and appetite to do deals. Obviously, you've made some smaller tuck-ins so far this year. But I wonder if you can comment as to whether the organization is poised to do bigger, more meaningful deals, whether that still is very much your focus or whether some of these comments on the media is somewhat taken out of context. Thank you.

Kristian Villumsen

President & Chief Executive Officer, Coloplast A/S



So, these discussions get a bit binary, right, when either there is a deal or there isn't. We've made a couple of tuck-ins this past quarter. This has, I think, a very pragmatic [ph] bend Scott (00:43:40), we're basically increasing insurance coverage in our own channel in the US. As you know, we have very limited debt, we have the capacity to act, we have done a bit of M&A work on the IU side. But we'll update you, Scott, once we're ready to do more. I think that's as much as I'll say at the moment. It is a part of the strategy and we will also be doing one this strategic period. But stay tuned.

Scott Bardo

Analyst, Joh. Berenberg, Gossler & Co. KG (United Kingdom)

Q

Thank you.

Operator: Thank you. We've had a couple more questions come through. The first is from the line of Kate Kalashnikova of Citi. Please go ahead. Your line is open.

Kate Kalashnikova

Analyst, Citigroup Global Markets Ltd.

Q

Hello, Kristian, Anders. It's Kate Kalashnikova from Citi. I've got two questions. The first one is on Interventional Urology. Given that there's an expected procedure volume recovery in Men's Health and also improvements that you've seen in recent weeks in Women's Health, why are you not assuming any pent-up demand benefit in the guidance this year? Are you simply waiting to see more evidence of improving procedure volumes in Q3 or is it just a timing issue? And if so, do you expect pent-up benefit next year in Interventional Urology?

And then the second question is on Chronic Care. Could you update us on new patient discharge for Ostomy in the UK and Continental Europe? Perhaps, how much improvement have you seen from January when you noticed that patient discharge in the UK was about 60% of pre-COVID levels and 85% in Continental Europe? And also, could you comment on new patient discharge for Continence?

Kristian Villumsen

President & Chief Executive Officer, Coloplast A/S

A

Sure. So to your first question, it's true that we're not assuming a lot of pent-up demand, we'll definitely celebrate it if it's there, Kate. I guess we also want to see a few more months behind us. We're encouraged by the progress so far, particularly for Men's Health. Women's Health, we only have a couple of months now with increasing momentum, so let's see when we get a few more months behind us. When it comes to your question on new patient discharge, it was mainly Europe, correct?

Kate Kalashnikova

Analyst, Citigroup Global Markets Ltd.

Q

Yes. Europe and UK?

Kristian Villumsen

President & Chief Executive Officer, Coloplast A/S

A

Yes. So for the UK, we are seeing the Ostomy new patient discharge approved ahead of the Continence new patient discharge. We've seen OC come from I would say index 60 to now index 80, index 80 plus, while Continence is lagging a bit behind. It's still sitting around a bit more than 60 – index 60. And if you look to the rest of Europe we are seeing a relatively mixed picture. I would say the smaller markets but that would cover let's say

Switzerland, the Benelux, Nordics, we're seeing numbers around the index 80 range. But for Germany and Italy, we're seeing better numbers and better momentum, so it is a bit of a mixed picture.

Kate Kalashnikova

Analyst, Citigroup Global Markets Ltd.

Q

Okay. Thank you. And quickly comment on the US as well, that would be helpful.

Kristian Villumsen

President & Chief Executive Officer, Coloplast A/S

A

So, on the US, for new patient discharge, we are seeing pretty much normal around Ostomy, so that's also what leads us to be, if you will, bullish about investing in that side of the business, and Continence is around index 80.

Kate Kalashnikova

Analyst, Citigroup Global Markets Ltd.

Q

Thank you.

Operator: Thank you. And we have one further question in the queue so far. That's from the line of Carsten Lønborg of SEB. Please go ahead. Your line is open.

Carsten Lønborg Madsen

Analyst, SEB Enskilda (Denmark)

Q

Thank you very much. Just one question here. Kristian, I'm just following up on a comment you had about the new Ostomy platform. As you said, you have previously told us that you had a setback. And – but I also think you said back then that the root cause was identified. Maybe I'm putting a little bit too much emphasis on your wording, but to me it sounded a little bit like that you didn't really have had a lot of progress in fixing the root cause or the last couple of months. Is that correct?

Kristian Villumsen

President & Chief Executive Officer, Coloplast A/S

A

So, it's clear. It's true, Carsten, we have isolated the root cause. We also believe that we have a fix. But without walking into, if you will, our development progress in too much detail, we still haven't decided fully how long it is going to take, so when an appropriate time to launch would be.

Carsten Lønborg Madsen

Analyst, SEB Enskilda (Denmark)

Q

Okay. Okay. Thank you very much. That was all for me.

Operator: Thank you. [Operator Instructions] And with that, one further question come through, that's from the line of Jannick Denholt of ABG. Please go ahead. Your line is open.

Jannick Lindegaard Denholt

Analyst, ABG Sundal Collier ASA (Denmark)

Q

Hi, again, Jannick from ABG, just a follow-up on the savings. I understand that some of them on the OpEx side are structural, obviously also, you can say, the post-pandemic scenario, less travelling, etcetera. Anders, can you

quantify, you can say, or at least split them out a little bit, where do you see that being the most? Is it on admin? Is it on S&D? Or how should we think of that going forward?

Anders Lonning-Skovgaard

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

A

So, Jannick, as I said earlier, I expect that half of the improvements we have seen will continue and it's a little bit mixed across our P&L. We are having a better start as we talked to you guys about on the gross margin as a consequence of the Global Operations Plans and the execution we have seen so far. But we're also seeing some efficiency gains on the other P&L items so it is a little bit a mix across our P&L.

Jannick Lindegaard Denholt

Analyst, ABG Sundal Collier ASA (Denmark)

Q

Okay. Thanks.

Operator: Thank you. [Operator Instructions] Okay. There seems to be no further questions from the phone. So I'll hand back to our speakers for the closing comments.

Kristian Villumsen

President & Chief Executive Officer, Coloplast A/S

So, no long comments from our side. Thank you all for your interest in the company and please do reach out to us if you have follow-up questions, and otherwise, we will see you out there.

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