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Coloplast A/S (CLPBY.DK)

Q2 2023 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for standing by. Welcome and thank you for joining the Coloplast First Half 2022-2023 Earnings Release Conference Call. Throughout today's recorded presentation, all participants will be in a listen-only mode. The presentation will be followed by a question-and-answer session . [Operator Instructions]

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

Kristian Villumsen

President & Chief Executive Officer, Coloplast A/S

Thank you very much, operator. Good morning and welcome to our first half 2022-2023 conference call. My name is Kristian Villumsen. I'm 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 like we usually do. Could I ask you all to turn to slide number 3?

We delivered 8% organic growth and a reported EBIT margin before special items of 28% in the second quarter. Return on invested capital after tax and before special items was 19%, which reflects the impact from the Atos Medical acquisition. I'm satisfied with our performance. We continue to broadly outgrow the market. And more importantly, we continue to help more people who live with intimate healthcare needs. In the first six months of the

financial year, we welcomed more than 130,000 new users to our patient support program, Coloplast Care, which represents a 5% increase from last year.

Today, we narrow our financial guidance for the year. We now expect organic revenue growth of around 8%, a reported growth in Danish kroner of 8% to 9%, and a reported EBIT margin of 28% to 29%. Anders will take us through the details later. But overall, on organic growth, we see good momentum across all business areas while the reported growth in Danish kroner and reported EBIT margin are impacted by unfavorable development in currencies. The underlying assumptions laid out in November still largely hold.

Before going into the details of today's results, I'd like to provide an update on some of our strategic priorities within the Strive25 strategy. Please turn to slide number 4. First, in Ostomy Care in the US, we continued to advance our competitive position. The business is delivering solid double-digit growth, and the renewed contract with Premier, one of the largest group purchasing organizations in the US, took effect on April 1.

Second. Towards the end of the quarter, we began to see recovery in China, a key strategic market for the company, following one full year in which renewed COVID-19 restrictions have challenged the operating environment in the country. We are now looking at a positive development in the key leading indicators of growth, access to hospitals and patient inflow, which gives me confidence about the mid- and long-term growth prospects of our Chinese business.

Third, we're making good progress on our clinical performance program. Luja, our next-generation male intermittent catheter with a unique Micro-hole Zone Technology, has been launched in four markets and will be introduced in other key markets over the next nine months. It will follow how we obtain reimbursement. In March, we published the results of the first pivotal clinical study, which showed a significant improvement in bladder emptying with Luja compared to a competitor catheter.

Heylo, our digital leakage platform in Ostomy Care, is on track to be launched in the first markets later in the year.

On our sustainability initiatives, we continue to make good progress on our recycling efforts with 74% of our production waste now recycled due to a successful partnership in Hungary. In the first six months of the year, we reduced Scope 1 and 2 emissions by 15% compared to the base year of 2018-2019 as a result of our efforts to replace natural gas by electric heat pumps at our production sites in Hungary and China.

One more metric that I'm very satisfied with is employee engagement where we maintain a solid score of 8.1, ahead of the industry benchmark of 7.6.

Next, our automation program, part of the Global Operations Plan 5, has been impacted by longer component lead times. The ambition to release around 1,000 FTEs is unchanged, but the timeline has been extended into the first quarter of the 2023-2024 financial year.

Finally, this quarter marked the one-year anniversary of the completion of the Atos Medical acquisition, and I'm very pleased with the continued good performance of the business, growing in line with expectations of 8% to 10%. We also continue to make good progress on the integration of Atos Medical into Coloplast infrastructure, and we'll remain on track to deliver synergies of up to DKK 100 million with full impact from the 2023-2024 financial year.

Now let's take a closer look at today's results. Please turn to slide number 5. Let me start off with a few highlights from our second quarter. Continued solid momentum in our Chronic Care business despite impact from COVID-

19 in China and back orders in Collecting Devices. China detracted from Ostomy Care growth as expected. However, as already mentioned, we've started to see a recovery in the key leading indicators of growth and we believe Q2 to be the trough. We're expecting growth to pick up in the second half of the year. Our Wound & Skin Care and Interventional Urology businesses delivered strong double-digit growth in the quarter with solid momentum and some benefit from a lower baseline last year.

Now let's dive into the details by business area. In Ostomy Care, organic growth was 7% for the first six months and growth in Danish kroner was 6%. In Q2, organic growth was 6% with growth in Danish kroner of 5%. Our SenSura Mio portfolio continues to be the main growth driver, followed by the Brava supporting parts. Our SenSura and Assura/Alterna portfolios also continue to post solid growth in emerging markets.

From a geographical perspective, all regions contributed to growth led by Europe and especially the UK and Germany. The US also made a solid contribution to growth. And growth in emerging markets, excluding China, was broad-based led by LATAM. China posted negative growth in the quarter, as I explained earlier.

In Continence Care, organic growth was 6% for the first six months with growth in Danish kroner of also 6%. In Q2, organic growth was 6% and growth in Danish kroner was 5%. Growth continues to be driven by the SpeediCath ready-to-use intermittent catheters with a solid contribution from the SpeediCath Flex portfolio as well as standard and compact catheters. Continence Care growth in the quarter continued to be negatively impacted by back orders in Collecting Devices. The back order situation is now resolved with production back to full capacity in Q3.

From a geographical perspective, all regions contributed to sales growth led by the US and Europe, especially the UK and Germany. In emerging markets, LATAM was the key contributor to growth. Markets where reimbursement has been recently established or improved, such as Poland, Australia, Japan and South Korea, continued to perform well and grew double digit.

Voice & Respiratory Care posted 9% organic growth in Q2 with solid contribution from both laryngectomy and tracheostomy. Growth in laryngectomy was high-single digit, 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. All regions contributed to growth led by Europe.

Growth in the Tracheostomy and ENT business was double digit with continued solid demand and positive impact from forward integration in key European markets. There were two noteworthy developments in Voice & Respiratory Care during the quarter.

A new clinical study on Provox Life was concluded in April, demonstrating a significant improvement in pulmonary health and related symptoms for laryngectomy patients when using higher performance heat and moisture exchangers.

Second, in Poland, reimbursement for heat moisture exchanges was introduced as of January 1. This is a good example of one of the market development initiatives that the Atos Medical team has supported to raise the standard of care for laryngectomy patients.

In Wound & Skin Care, organic growth was 7% for the first six months and growth in Danish kroner was 9%. In Q2, organic growth was 13% and growth in Danish kroner was 14%. The Wound Care business grew 12% organically in the quarter and 4% in the first six months. Growth in the quarter reflects solid momentum in Europe, which also benefited from a low baseline last year. Growth was mostly driven by the Biatain Silicone portfolio in

Germany, France and the UK. China returned to growth as a result of the improved operating environment towards the end of the quarter. Back orders in Wound Care continued to impact the performance in the second quarter as expected. The back order situation has been resolved, and production will now gradually ramp up in the second half of the year.

In Interventional Urology, organic growth was 14% for the first six months and growth in Danish kroner was 19%. In Q2, organic growth was 17% and reported growth in Danish kroner was 19%. All segments and geographies contributed to growth in the quarter led by the US Men's Health business and continued solid momentum in the Titan penile implants. Performance in the quarter includes positive impact from a lower baseline last year in the US business.

With this, I will now hand over to Anders will take you through the financials and outlook in more detail. Please turn to slide 6.

Anders Lonning-Skovgaard

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

Thank you, Kristian, and hello, everyone.

Reported revenue for the first six months increased by DKK 1.5 billion or 14% compared to last year. Organic growth contributed DKK 804 million or around 8 percentage points to reported revenue growth. Acquired revenue from the Atos Medical acquisition contributed DKK 633 million to reported revenue for the first six months, reflecting four months' impact. Acquired revenue contributed around 6 percentage points to reported growth in the first six months. Foreign exchange rates had a limited impact of DKK 57 million Danish quarter or around 7 percentage point on reported revenue, mainly due to the appreciation of the US dollar against the Danish kroner.

Please turn to slide 7. Gross profit for the first six months amounted to DKK 8.2 billion, corresponding to a gross margin of 67% against 69% last year. The gross margin was negatively impacted by increased prices for raw materials, energy and freight, double-digit wage inflation in Hungary, and ramp-up cost at our sites in Costa Rica. Electricity prices hedges at the level of €400 per megawatt hour as doubling from last year took effect from January 1 and posed a significant headwind in the second quarter. The gross margin in the second quarter also includes one-offs impact from cost related to back order resolutions.

The above mentioned headwinds were only partly offset by positive impact from the inclusion of Atos Medical, price increases, and country and product mix. Leverage on production cost and efficiency savings from the Global Operations Plan 5 also contributed positively to the gross margin. The gross margin includes a positive impact from currencies of around 70 basis points for the first six months.

Operating expenses for the first six months amounted to DKK 4.7 billion. The like-for-like increase in operating expenses, excluding inorganic impact from Atos Medical, was DKK 368 million or 9% compared to last year. Atos Medical contributed with DKK 570 million to operating expenses, of which DKK 107 million were related to the TPA amortization included under distribution costs.

The distribution-to-sales ratio for the first six months was 31% compared to 29% last year and includes impact from Atos Medical and increased level of commercial activities. Higher logistic costs and continued commercial investments in Interventional Urology consumer and digital initiatives and Atos Medical all contributed to the increase. The admin-to-sales ratio in the first six months was 5% compared to 4% last year, primarily impacted by the inclusion of Atos Medical. The R&D-to-sales ratio for the first six months was 3% of sales compared to 4% last year, impacted by phasing.

Overall, this resulted in an increase in operating profit before special items of 3% for the first six months, corresponding to an EBIT margin before special items of 28% compared to 31% last year. The EBIT margin in the first six months contains around 90 basis points impact from the Atos Medical PPA amortization costs.

Currencies contributed with around 50 basis points to the reported EBIT margin, mainly related to the appreciation of the US dollar against the Danish kroner. Financial items in the first six months were a net expense of DKK 524 million, compared to a net expense of DKK 76 million last year, both driven by noncash impact from currencies. The increase in net expenses was also – it was mainly due to the interest expenses related to the financing of Atos Medical acquisition and losses on balance sheet items denominated in mostly US dollar. The tax expense in the first six months was DKK 606 million with a tax rate of 21% compared to a tax rate of 23% last year, positively impacted by the transfer of Atos Medical intellectual property.

As a result of the increase in net financial expenses, net profit before special items for the first six months declined 8% compared to last year despite the increase in operating profit and the lower income tax level. Consequently, diluted earnings per share before special items decreased 8% to DKK 10.86.

Please turn to slide 8. Operating cash flow for the first six months amounted to around DKK 1.2 billion compared to around DKK 1.4 billion last year. The development in cash flows was driven by a high income tax paid and an increase in working capital, mostly driven by inventories. Inventories increased due to a high level of safety stock on raw materials, price increases, and an increase in finished goods due to the transfer of production to Costa Rica.

Cash flow from investing activities was an outflow of DKK 381 million or around 3 percentage point of revenue compared to an outflow of DKK 11.1 billion last year, impacted by the acquisition of Atos Medical. CapEx in the first six months amounted to DKK 566 million or 5% of sales compared to 4% of sales in the same period last year. As a result, the free cash flow for the first six months was an inflow of DKK 795 million compared to an outflow of DKK 9.7 billion last year, which was impacted by the Atos Medical acquisition.

The adjusted free cash flow in the first six months of 2022-2023 was an inflow of DKK 1.1 billion. The trailing 12-month cash conversion was 80%, impacted by the development in working capital. The net working capital amounted to around 26% of sales compared to around 25% at the end of 2021-2022, impacted mostly by the increase in inventories. Lastly, the board of directors approved the half-year interim dividend of DKK 5 per share, corresponding to a total interim dividend payout of approximately DKK 1 billion.

Now let's look into the financial guidance for the year. Please turn to slide 9. As Kristian mentioned earlier, the organic revenue growth is now expected to be around 8% from previously 7% to 8%. The narrowing to the upper end of the guidance range reflects two things, a more broad-based good momentum across all our business areas and our Interventional Urology business, which is now expected to deliver around 10% organic growth from previously high-single-digit growth. The remaining underlying assumptions on organic revenue growth are largely unchanged.

In Chronic Care, we expect continued solid performance across all our geographies. For China, we continue to expect growth below the Strive25 ambition due to the impact from COVID-19. We expect an improvement in growth in the second half mostly due to lower baseline and some benefit from improved market conditions. Voice & Respiratory Care growth is still expected between 8% to 10%. And in Wound & Skin, we continue to expect performance in line with our Strive25 ambition of above market growth despite impact from back orders now expected to extend into the third quarter.

Our reported revenue growth in Danish kroner is now expected at 8% to 9% from previously 9% to 10%, negatively impacted by currency development, mostly the US dollar and several emerging markets' currencies against the Danish kroner. The currency impact on reported growth is now expected to be around minus 2 percentage points from previously minus 1 percentage point. Contribution from the Atos Medical acquisition to reported growth is around 3 percentage points as expected.

We are narrowing our gross margin expectations to 66% to 67% from previously 66% to 68%. The assumptions on key cost categories, raw materials, energy, freight and wages, are largely unchanged. Over the last few months, we have seen some favorable development in electricity prices in Hungary and freight rates. However, these positive developments are entirely offset by continued unfavorable development in currencies.

The reported EBIT margin is now expected at 28% to 29% from previously 28% to 30%. We now expect negative impact from currencies of around minus 50 basis points from previously around positive 10 basis points.

EBIT margin guidance for 2022-2023 reflects the challenging macroeconomic environment that the world is facing at the moment. We are committed to deliver industry leading profitability as set out in our Strive25 guidance with an EBIT margin of 30%. We expect to be back at our long-term guidance once inflationary pressure on input costs eases, and the recent positive developments in electricity cost and freight rates makes me positive about our profitability outlook in the second half of Strive25 period.

For 2022-2023, I still expect around DKK 50 million in special items related to the integration of Atos Medical, and I also expect the CapEx guidance for 2022-2023 is to be around DKK 1.4 billion. And our effective tax rate is still expected to be around 21%.

The net financial expenses for 2022-2023 are now expected at around minus DKK 700 million from previously around minus DKK 600 million, mostly impacted by interest payments. The blended interest rate for the Atos Medical financing is now expected around 2.9% from previously 2.6% impacted by the adjustment of the variable interest rate on the two-year bond issue.

Thank you very much, operator. We are now ready to take questions.

QUESTION AND ANSWER SECTION

Operator: Ladies and gentlemen, at this time, we will begin the question-and answer-session. [Operator Instructions] The first question comes from the line of Hassan Al-Wakeel with Barclays. Please go ahead.

Hassan Al-Wakeel

Analyst, Barclays Capital Securities Ltd.

Q

Hi. Thank you for taking my questions. I have two, please. Firstly, on growth. Growth was anticipated to be stronger in the second half versus the first half, and today's narrowed guidance assumes a similar level of growth in the two halves on the back of a stronger H1 performance. Why do you not expect to top the 8% top line guidance as China comes back and backlogs ease? I'd love to understand how you see that.

And secondly, could you talk a bit about the FX headwinds to margins this year and if this entirely explains the downgrade or the narrowing, or if there are any other changes around the assumptions for the Italian payback scheme and what the current spot rates on FX and electricity prices imply for gross and EBIT margins next year? Thank you.

Kristian Villumsen

President & Chief Executive Officer, Coloplast A/S

A

Thank you, Hassan. Why don't I start with the growth? Well, I'd say, first of all, we're happy that we're narrowing guidance for the year at the high end of the interval on the back of broad-based growth and us coming out of back orders. We are now seeing a similar H2 compared to H1. There's a bit of baseline effects here that have to do with baseline for IU. So, IU came in a little stronger this quarter than we had expected. We also have a better baseline for Wound & Skin Care in Q2. There's nothing dramatic going on. The growth is broad-based across all businesses and all geographies.

Anders?

Anders Lonning-Skovgaard

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

A

Yeah. So thanks a lot, Hassan. There was quite a few questions in your number two, so I hope I can – I will cover all of them. I think the first one you had that was around our EBIT margin guidance for the year. And yes, we have narrowed it to 28% to 29% our EBIT margin, and this is due to FX headwinds. We have, over the last quarter, seen many of our currencies impacting our business quite significantly, especially in emerging markets but also the US dollar. And as you know, the Hungarian HUF, we're also quite exposed to that, and that exchange rate has increased versus the Danish kroner. So all in all, that is impacting us quite significantly in the remaining part of the year. And that's why we have adjusted our – or narrowed our EBIT margin to 28% to 29%.

Then I think you had a question around Italy. There are no changes to our assumptions around Italy. So the Italian clawback, we are expecting some kind of a conclusion over summer. So that's what I'm expecting currently. But in the assumptions for the year, there are no changes to what I expect or explained the last quarter.

Then I think you had also a question around I think it was energy into 2023-2024. So energy, as you all are aware, we have hedged this year at a level of around 400 megawatt hours. And that is hedge we have done until end of the financial year. With the current forwards for 2023-2024, it's sitting around 150 megawatt hours. We are

expecting quite a significant tailwind into 2023-2024 of something around DKK 100 million. And we have not hedged yet, but I am evaluating it more or less as we speak.

Hassan Al-Wakeel

Analyst, Barclays Capital Securities Ltd.

That's very helpful.

Q

Anders Lonning-Skovgaard

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

So, Hassan, I think that covered your questions.

A

Hassan Al-Wakeel

Analyst, Barclays Capital Securities Ltd.

Very helpful. If I could just follow up on the EBIT margin. I mean, for the first half, you're towards the lower end of the new range and you need quite a steep acceleration in H2 to get to the upper end of that new range. So I guess what could drive this and what are the levers moving from H1 to H2 on the margin side, please?

Q

Anders Lonning-Skovgaard

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

So, first of all, we are expecting growth for the year of around 8%. So that is an important one. Secondly, I'm also expecting, as we have seen in the previous years, we will get positive scale as the absolute revenue in the second half is higher than in the first half. And then I'm also expecting some positives on the freight. We are starting to see that versus the earlier expectations.

A

And then as I also mentioned, we had some one-offs in our second quarter related to back order resolution. So we have higher airfreight, higher scrapping of products. And I am not expecting that in the second half of the year. So those are some of the main assumptions that we are expecting in order to deliver within the 2028-2029 for the year.

Hassan Al-Wakeel

Analyst, Barclays Capital Securities Ltd.

Thanks a lot.

Q

Anders Lonning-Skovgaard

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

Thank you.

A

Operator: The next question comes from the line of Veronika Dubajova with Citi. Please go ahead.

Veronika Dubajova

Analyst, Citigroup Global Markets Ltd.

Hi, guys. Good morning and thank you for taking my questions. I have two. First is just on the Strive25 ambition of 30%-plus margin. I guess with FX where it is, Anders, I just wonder what your degree of confidence is that you could already get there in fiscal 2024, or whether this is now something that has slipped into fiscal 2025, given all the moving parts that you see in the business.

Q

And then my second question is also financial. Just looking at the OpEx development year-to-date, I think you're talking about OpEx growing less than sales. But I think year-to-date, you're actually tracking slightly ahead. So just wanted to clarify, is there any phasing impacts that mean you expect lower OpEx growth, or should we maybe be a little bit more cautious around that assumption as we think about the second half and the full year? Thank you, guys.

Anders Lonning-Skovgaard

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

A

All right, Veronika. Let me take those two questions. So we are still committed to deliver around 30% EBIT margin in the Strive25 period. We are expecting we will get, as I said earlier, some tailwind from the energy already into next year. And then, as you know, we will also have parts of impact from scale over the coming years. So we are still committed to deliver within our Strive25, you can say, financial ambition.

In terms of your second question around our operating expenses, yes, it's a little bit higher in the first half, but I am expecting into the second half it will decrease also below the reported growth that we are currently expecting. It is a little bit higher in the first half due to especially logistic costs, driven by price increases. But I'm expecting it will be reduced also because the baseline of last year that we have some higher cost, especially in Q4. So I'm still committed to the operating expenses, you can say, assumptions that we have laid out early in the year.

Veronika Dubajova

Analyst, Citigroup Global Markets Ltd.

Q

Okay. That's helpful. And, Anders, if I can just push you back on that 30%-plus ambition, I think previously you had said you were hopeful you could already get there in fiscal 2024. Is that still realistic, do you think, or is that getting more difficult given where you are for fiscal 2023?

Anders Lonning-Skovgaard

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

A

So, Veronika, I think I have said many times that we are committed to deliver the 30% EBIT margin over the period, and that's still what I expect.

Veronika Dubajova

Analyst, Citigroup Global Markets Ltd.

Q

Okay. Understood. I had to try. Thanks, guys.

Operator: The next question comes from the line of Oliver Metzger with Oddo. Please go ahead.

Oliver Metzger

Analyst, ODDO BHF AG

Q

Good morning. Thanks for taking my questions. First one is on Wound Care. You obviously saw a quite strong momentum despite even some headwinds. So where do we stand right now? Is it the momentum is more based on a due to favorable base or do you also see some higher underlying traction?

Second question is on Ostomy Care in China. So your comments appear still quite cautious. How to think on one hand of pent-up demand and on the other hand also on your comment that the average value per patient remains below pandemic level, if you can elaborate on that? Thank you.

Kristian Villumsen

President & Chief Executive Officer, Coloplast A/S

A

Very good, Oliver. Thank you for your questions. So on Wound Care, good quarter. But I would say we also have a favorable baseline. The big thing is, of course, that we're getting out of back orders for the second half of the year. And what that means is that we expect that we will deliver a year where we're also clearly above market in Wound Care despite all the headwinds that we've had here in the first half of the year from back orders.

On China, I have to say I am seeing very clearly on the patient inflow that things are improving and that remember for the ostomy number this quarter, China has – was a negative growth, right, so it has been a real drag. It is going to come back to double-digit growth in the second half of this year. I am seeing almost normalized access.

The only thing I'd point out on access is that for maybe one out of every four hospitals, we're still not serving patients directly, but we are also doing that in most of the markets. I still have not seen the average order value on the basket size completely normalize. But for me, this is basically positive. I was in China just a few weeks back. And the way the local team talks about this is that we're coming back, the country is coming back, and we don't have all the restrictions with access and masks that we used to have and domestic travel, that's behind us. So cautiously optimistic on China, Oliver, it's going to be a double-digit growth second half.

Oliver Metzger

Analyst, ODDO BHF AG

Q

Yeah. Just for as a clarification. So it's volume-driven. And from a value perspective, you don't see an immediate improvement, don't you?

Kristian Villumsen

President & Chief Executive Officer, Coloplast A/S

A

So this is volume. This is patient volume.

Oliver Metzger

Analyst, ODDO BHF AG

Q

Yeah.

Kristian Villumsen

President & Chief Executive Officer, Coloplast A/S

A

This is patient volume. So if something dramatically happens to the average order basket size, that would be – that will be upside. But again, like I've – all the time when I've been speaking to China, I just need to see it in the data first before I start talking to you guys about it. I am seeing it very clearly on the patient side. I'm not seeing on the order side.

Oliver Metzger

Analyst, ODDO BHF AG

Q

Okay. That's helpful. Thank you very much.

Operator: The next question comes from the line of Christian Ryom with Danske Bank. Please go ahead.

Christian Sørup Ryom

Analyst, Danske Bank



Yes. Hello and I have two questions as well. First is also on Wound Care. And so when we look at sales for this quarter and the nominal sales level has taken quite a bit of a jump compared to previous quarters on the order of, say, 7% to 10%. What drove this and how much is due to, say, potential restocking in China or exceptional orders are on compete, for instance?

And then the second question is to the Voice & Respiratory Care business. In the report, you mentioned that the tracheostomy sub-segment is helped by forward integration. And can you clarify and the extent to which this is a new development and whether you expect to do more of this in the coming quarters? Thank you.

Kristian Villumsen

President & Chief Executive Officer, Coloplast A/S



Thanks, Christian. Two good questions. So Wound Care, this is mainly driven by China and the consumer business. So we're seeing China back to growth and really strong order volume on the consumer side. So those are the main ones.

And then on the tracheostomy business, good momentum. The forward integration, you'll recall, is the integration of the tracheostomy business from Atos Medical, Atos Medical's acquisition of TRACOE. We've taken over in most of the markets already where we plan to do. So that, of course, gives you immediately a bit of price and margin effect, and you shouldn't expect that to be a big driver going forward. It would have to be driven by, if you will, raw demand generation.

Christian Sørup Ryom

Analyst, Danske Bank



Great. Thank you.

Operator: The next question comes from the line of Maja Pataki with Kepler Cheuvreux. Please go ahead.

Maja Pataki

Analyst, Kepler Cheuvreux SA (Switzerland)



Yes. Hi. And three questions from me, please. First, Kristian, you said that you still expect Heylo to be launched in 2023. You sounded quite confident. I was wondering, has there been anything on a data perspective or talks with payors that makes you more confident that you will get reimbursement and hence the launch is going to come? That's the first question.

Then two questions for Anders. Could you maybe quantify the kind of extraordinary elevated costs in Q2 so we just have a bit of an understanding what would have been normalized the cost impact in Q2? You referred to some back orders and stuff.

And the second question is with regards to Italy. Please remind me. [ph] You – with Italy (00:37:58), the payback system was back on the table. You mentioned that you cover it with your existing guidance. Now, my understanding is that there are talks in Italy that it's going to be postponed or that potentially if you drop any legal course or legal action, you would only have to pay half of it. Could you just help us understand maybe how much of the impact – how much of an impact that has on your numbers so we can understand a bit how the margins and the top line would be impacted? Thank you.

Kristian Villumsen

President & Chief Executive Officer, Coloplast A/S

A

Yeah, that last question is going to be for Anders that he can speculate on the intricacies of how the Italian campaign are going to go...

Maja Pataki

Analyst, Kepler Cheuvreux SA (Switzerland)

Q

Italy, yeah.

Kristian Villumsen

President & Chief Executive Officer, Coloplast A/S

A

Yeah, how they're going to go about this. But on Heylo, Maja, things are going according to plan. So we expect that we're going to get results, clinical results after summer. And once we have that, the negotiations will start with payors. And depending on how that goes, we'll see. But we're still expecting to be able to be more firm once we get past summer. I don't have more data at this stage to give you. That will have to wait until after summer. But I'm not expecting endless negotiations with payors, right? So that's the source of the statement on time.

Maja Pataki

Analyst, Kepler Cheuvreux SA (Switzerland)

Q

Okay.

Anders Lonning-Skovgaard

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

A

Yeah. And in terms of your second and third question, your second question around the one-offs that we are calling out. So yes, unfortunately, we had some one-offs in the second quarter impacting the gross margin. I'm expecting it's – or it is around the 30 basis points on the gross margin and it's related to airfreight, it's related to scrapping, and we are not expecting that in the second half of the year. We actually expect that most of the back orders we have seen in the first half of the year has been resolved. So I'm calling this out as a one-off.

In terms of your third question, Italy, yes, there's a lot of things going on, a lot of rumors and we are also, of course, involved in this. But I'm not going to be more firm in terms of what we expect until we are having a conclusion. And I'm expecting a conclusion sometime over summer, but it is still uncertain.

Maja Pataki

Analyst, Kepler Cheuvreux SA (Switzerland)

Q

Thank you.

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

Lisa Bedell Clive

Analyst, Bernstein Autonomous LLP

Q

Hi there. Just a few questions on your Wound Management business. In the US, can you just comment on the developments of that business there, how your product portfolio is positioned, sort of what you potentially need to be more competitive?

And second to that, the negative pressure category, particularly single use. I know you were involved in that many years ago. Is that an area that you think for the longer term in the US you need to be participating in in order to be active? Thanks very much.

Kristian Villumsen

President & Chief Executive Officer, Coloplast A/S

A

So, Lisa, thanks for your question. Remember, for us, the Wound and Skin Care business in the US is almost exclusively a Skin Care business at this stage. We have a couple of gaps in the portfolio on the dressing side that we need to close a silicone dressing with the [ph] pressure (00:41:45) injury indication. We're working hard on that. And then also a silver version of our fiber product. Both are in pipeline.

Once we're ready to launch, of course, we'll start to invest. We think we have a competitive portfolio. We can do things with like we have also in Europe. And we've communicated previously that you'll see launches in the second half of Strive25. So we're coming clearly closer to those launches. There are no current plans on entering negative pressure.

Lisa Bedell Clive

Analyst, Bernstein Autonomous LLP

Q

Okay. Thanks very much.

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

Niels Granholm-Leth

Analyst, Carnegie Investment Bank AB (Denmark)

Q

Thank you so much. First question about the progression of the reimbursement negotiations you may have on Luja. Could you provide an update on those talks?

And second question would be about your net working capital. So how quickly would you expect normalization of your net working capital? Thank you.

Kristian Villumsen

President & Chief Executive Officer, Coloplast A/S

A

Luja, Niels, is in first-world markets. I expect that we will be launching in most of our major markets by end this year. And that's probably what I'll say. You should expect that once we launch, we have achieved a price that we can live with.

Anders Lonning-Skovgaard

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

A

And then, Niels, in terms of your second question, net working capital, as I said earlier, it is sitting at around the 26% after the first six months. And I am expecting we will come down to the around 24% towards the end of the year, so end of Q4. That's my assumption.

Niels Granholm-Leth

Analyst, Carnegie Investment Bank AB (Denmark)

Q

Okay. Thank you.

Anders Lonning-Skovgaard

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

You're welcome.

A

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

Robert J. Davies

Analyst, Morgan Stanley & Co. International Plc

Hello. Thanks for taking my questions. My first one was just around your automation program. I noticed in your slide deck you'd mentioned that you'd pushed out the timeline around that due to component lead times extending. Just curious what exactly are you having trouble getting hold on there, and has that changed your expectations around any associated cost for that program? Thank you.

Q

Kristian Villumsen

President & Chief Executive Officer, Coloplast A/S

Thank you. Nothing dramatic. Coloplast has been exposed to some of the shortages around the chips or some of our suppliers have. So we are deploying what I'll call tried and tested or proven technology. There's just been a few hiccups in the supply chains of some of the suppliers. Target still stands. Implementation of the automation initiatives that have already been deployed is on track, and the target is to release 1,000 FTEs. So we are about a quarter delayed, but that's it.

A

Robert J. Davies

Analyst, Morgan Stanley & Co. International Plc

Okay. And then the other one was just on, I guess, the phasing of growth through the back half of the year across Interventional Urology and Wound & Skin Care, given the strong step up you saw in 2Q. Is that sort of back end-loaded or are you expecting a sort of even phasing of that over the back half the year? I know particularly on Wound & Skin Care, your comps are getting a lot easier. I think they were in negative territory by the fourth quarter of last year. Just curious in terms of the shape of growth through the back half of the year. Thank you.

Q

Kristian Villumsen

President & Chief Executive Officer, Coloplast A/S

Yeah. So IU has had a good start, but the comps for the second half are also high, right? So we are expecting, like I think Anders remarked on earlier, that IU will be double digit. And for Wound Care, the baseline for the second half of the year is also favorable.

A

Kristian Villumsen

President & Chief Executive Officer, Coloplast A/S

Yeah. But you should expect an even phasing Q3.

A

Robert J. Davies

Analyst, Morgan Stanley & Co. International Plc

Okay. Okay. Okay, thank you.

Q

Operator: The next question comes from the line of Julien Ouaddour with Bank of America. Please go ahead.

Julien Ouaddour

Analyst, Bank of America Merrill Lynch



Good morning. Thank you for taking my questions. I have a couple, please. The first one in Ostomy. So you've been awarded some GPO contract three years ago. Unfortunately, COVID delayed the sort of benefits from it. Now you'll get more sales reps on the field, also access much better in the US today. So how we should think about the impact from these contracts going forward and could it be a sort of tailwind for the years to come?

Second question on EBIT. So basically currency and input cost inflation are clearly the main headwinds this year. But would it be true to believe that maybe growth becoming a bit more expensive for you, given competition is stepping up leading maybe to more clinical evidence or commercial activity requires to maintain the sort of historical outperformance versus the market growth? Thank you.

Kristian Villumsen

President & Chief Executive Officer, Coloplast A/S



Why don't, Julien, I get started on the question on the US Ostomy Care? We made a big deal out of getting on the two largest GPOs in the US because we fundamentally believed that they marked a point in time when we would have equal access to the market that we really hadn't had historically. And it has been significant. So the US Ostomy business has been growing double digit on the back of these wins. We have a significantly larger hunting ground, if I may use that term. The actual conversion process is also easier once you are on GPO. So this is extremely important for long-term growth on the US OC side. And so you should think of that as instrumental to continue to deliver double-digit growth in the US on the Ostomy side for years to come. Maybe I should also say Premier's renewed until 2026 and Vizient still runs until 2024.

Anders Lonning-Skovgaard

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



Yeah. And then your second question. So first of all, we are committed to deliver our top-line growth in the level of 7% to 9% over the period. Right now we're sitting with for this year of around 8%. We're also committed to invest into growth opportunities. And we have talked to some of these also earlier today. And remember, also, we have invested quite a bit into innovation and we are – have just launched the Luja, and we're also expecting to launch other things in the coming years. So we are expecting to deliver on our, you can say, long-term financial guidance. So the headwinds we are currently having on the margin is really on the raw material side, so input cost, freight, energy. So that's the headwind we're kind of seeing.

Julien Ouaddour

Analyst, Bank of America Merrill Lynch



Thank you. That is helpful.

Operator: There are no further questions at this time. I hand back to Kristian Villumsen for closing comments.

Kristian Villumsen

President & Chief Executive Officer, Coloplast A/S

Well, thank you, ladies and gentlemen, for the interest in the company. I look forward to seeing many of you on the road over the coming quarters. Take care.

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