

**COLOPLAST**

**Moderator: Lars Rasmussen**  
**August 16, 2016**  
**15:00 p.m. BST**

Operator: This is conference # 959116

Operator: Ladies and gentlemen, thank you for holding and welcome to the Coloplast Earnings Conference Call. At this time, all participants are in a listen-only mode. There will be a presentation followed by a question-and-answer session at which time if you wish to ask a question you will need to press star one on your telephone. I must advise you that this conference is being recorded today on Tuesday, August 16, 2016. And I would now like to hand the conference over to your speaker today, Lars Rasmussen. Please go ahead, sir.

Lars Rasmussen: Thank you. Good afternoon and welcome to our Q3 2015/16 conference call. My name is Lars Rasmussen. I'm CEO of Coloplast and I have with me today CFO, Anders Lonning-Skovgaard and our Investor Relations team. We start off with the usual presentation by Anders and myself and then we will open up for questions. Please turn to slide 3.

In Q3, we delivered a solid 8 percent organic growth, which I'm pleased with. We saw strong performance in Europe driven in particular by a stronger quarter for Ostomy care with double-digit organic growth of 11 percent. The SenSura Mio Convex launch continues to be very well received by users and nurses and has increased the momentum of the SenSura Mio portfolio even further. The US saw positive growth in Q3, but not at the level that we had anticipated. We experienced the expected uplift after the contractual changes that we made with Cardinal Home Health last year; however, (inaudible) is currently consolidating warehouses, which impacted performance in Q3

negatively. On a positive note, we continue to see double-digit sales up growth within chronic care in the US. We are also experiencing tailwind from market share gains in the US urology business. While performance in individual and emerging markets varies, emerging markets as a whole is seeing a lower growth momentum driven by among other factors a continued weaker momentum in China within wound care. Year-to-date, we delivered a 7 percent organic growth, which is in line with expectations. Our EBIT increased 8 percent and the EBIT margin came in at 33 percent for the first nine months of the fiscal year. A key event during the quarter was our Capital Markets Day in Minneapolis in June, where we presented our new strategy and our revised long-term guidance. We now aim for 7 percent to 9 percent annual organic sales growth and the continuation of the annual 50 to 100 basis points operating margin improvement.

For those of you who were unable to attend the presentations and webcast are available on our website. Our organic revenue guidance for 2015/2016 is unchanged with a growth of 7 percent to 8 percent whereas our growth in Danish krone is now expected at around 6 percent from previously 6 percent to 7 percent. In addition, our EBIT margin guidance in fixed currencies is unchanged at 33 percent to 34 percent and 33 percent in Danish krone.

Please turn to slide 4. Year-to-date, our revenues grew 7 percent organically and 6 percent in Danish krone and amounted to DKK10.9 billion. In Ostomy Care, organic growth was 9 percent and growth in Danish krone was 7 percent. For Q3 in isolation, organic growth was 11 percent as mentioned earlier. Growth continues to be driven by our SenSura and Brava portfolios, especially in the larger markets like US, Germany, Nordics and the US. SenSura Mio Convex has now been launched in (16) markets and we are working hard to expand our manufacturing capacity to meet the high demand. And finally our Assura portfolio saw satisfactory growth driven by China, Russia and Algeria.

In Continence Care, organic growth was 5 percent and growth in Danish krone was 4 percent; in Q3, the organic growth was 6 percent. The SpeediCath ready to use intermittent catheters continue to drive growth, and especially the compact category performs well. In the compact segments, we

continued to see strong performance in markets like the UK, France and US. In the US, as mentioned earlier, we see satisfying in-market sales growth yet we continue to be negatively impacted by the distributor buying patterns and inventory reductions within continence care.

Growth year-to-date was also negatively impacted by the last tender win in Saudi Arabia in Q1, last year. Performance in our Conveen collecting device portfolio remains challenged by higher competitive pressure. And finally, we remain satisfied with sales growth for our Peristeen products.

In Urology Care, organic growth was 8 percent and growth in Danish krone was 10 percent. In Q3, the organic growth was 8 percent. Sales of the Titan range of inflatable penile implant devices continue to drive performance and we also saw continuous satisfactory growth within female pelvic health.

Our endourology business continues to be challenged by lower tender activity in emerging markets. In Wound & Skin Care, organic growth and growth in Danish krone were both 7 percent, organic growth for wound care in isolation was 6 percent. In Q3, organic growth for the total business area was 4 percent and for wound care it was 6 percent.

The growth was driven by Biatain sales, in particular Biatain Silicone in European markets like the UK and Germany. In France, growth was challenged by the introduction of a price cut by the French healthcare authorities in Q2. We also experienced lower growth in several emerging markets, especially in China, Saudi Arabia and Brazil.

The skin care business had negative growth in Q3 after very high Q2 growth from strong InterDry sales. Finally, satisfactory performance continued within our contract manufacturing of Compeed.

Turning to our geographical segments, we saw organic growth of 6 percent year-to-date and 8 percent in Q3 in our European markets. The growth was driven by UK, the Nordics markets and France. Organic revenue growth in other developed markets was 4 percent year-to-date and 3 percent in Q3. As explained earlier, order buying patterns and inventory reductions by

distributors impacted year-to-date and quarterly performance negatively in the US, whereas our growth rates in Canada and Japan remain satisfactory.

Revenue in emerging markets grew organically by 16 percent year-to-date and 18 percent in Q3. Year-to-date, we saw strong growth in markets like Russia and Argentina, whereas declining growth momentum in China, Brazil and Greece has influenced the overall emerging markets performance.

I would now like to hand you over to Anders, please turn to slide 5.

Anders Lonning-Skovgaard: Thank you, Lars, and good afternoon, everyone.

Gross profit was up by 6 percent to almost DKK7.5 billion. This equals a gross margin of 68 percent. We continue to see improvements in production efficiency at our volume sites. These improvements offset the negative gross profit impact from product mix. The gross profit was also impacted by an increase in depreciation as well as cost associated with the expansion of our Tatabanya site and relocation of manufacturing to Hungary.

The distribution to sales ratio came in at 28 percent on par with last year. The ratio was impacted by incremental sales investments in primarily the US and China of around DKK120 million year-to-date. The admin to sales ratio came in at 4 percent of sales, on par with recent trends.

The R&D to sales ratio came in at 3 percent of sales and activity levels remain high. We continue to invest in our pipeline and in strengthening the links between R&D and production.

Overall, this resulted in an increase in operating profit of 8 percent, corresponding to an EBIT margin of 33 percent in both fixed and actual currencies. In Q3 in isolation, the EBIT margin came in at 33 percent in both fixed and actual currencies.

Operating cash flow amounted to DKK1.7 billion and was down 13 percent compared with last year. We saw a positive impact from higher absolute earnings and higher paid taxes last year, which was offset by payments into escrow accounts to settle mesh claims. In the first nine months of this fiscal

year, mesh related payments amounted to a total of DKK1.4 billion. Cash flow from investing activities was impacted by investments in capacity expansion, both in machines for production of new products and the site expansion in Tatabanya and Hungary.

CapEx amounted to DKK386 million year-to-date, compared to DKK447 million in the same period last year. The lower absolute spend reflects the fact that the investments in the new factory in Tatabanya will be included in the fourth quarter of this year. In addition, last year's CapEx spend included a large investment into the new Mio, SenSura new Mio platform, as well as investments in the new factory in Nyirbator.

Finally, the sale of bonds provided a DKK318 million cash contribution versus DKK409 million last year.

Please turn to slide 6. Our organic revenue guidance for 2015/2016 is unchanged with a growth of 7 percent to 8 percent, whereas our growth in Danish krone is now expected at around 6 percent from previously 6 percent to 7 percent. The currency impact is based on spot rates as of August 5, 2016 and the negative impact is mainly a result of the depreciation of the British pound and the Argentinean peso against the Danish krone, which is practically offset by appreciation of the US dollar against the Danish krone.

We continue to expect a negative impact on our topline for 2015/2016 of around 15 basis points from pricing pressure. We are successfully mitigating the negative pricing pressure in Holland and German home care market. This leaves minor reimbursement impacts from Continence Care in Norway and wound care in Greece and France.

With respect to the mesh litigation, we continue to make good settlement progress, and until now total Mesh related payments amount to DKK2.2 billion. We have begun to utilize the DKK1.5 billion loan facility put in place to fund mesh payments and we now have a smaller net debt position of around DKK300 million.

For 2015/2016, we continue to expect an EBIT margin of 33 percent to 34 percent in fixed currencies and around 33 percent in Danish krone. We are

facing pressure in our gross margin from higher growth, from our new product launches and especially the SenSura Mio Convex launch, but we are on track with the relocation of manufacturing from Denmark to Hungary and more than 15 production lines are currently in the process of being transferred.

In Q3, we saw stable trends for most of our cost base, which we expect to continue. We continue to expect incremental sales investments of around DKK175 million.

We expect our net financials to end the financial year 2015/2016 at around minus DKK 25 million, impacted primarily by the net impact of cash flow hedges on the US dollar and British pound as well as devaluation of the Argentinean peso. The improved net financial estimate is primarily related to unrealized cash flow hedging gains on the British pound.

CapEx guidance for 2015/2016 remains DKK600 million to DKK700 million, our CapEx is driven in particular by investments in more capacity and for new products, including SenSura Mio, Biatain Silicone and for the Tatabanya factory expansion, which will be operational at the end of this month.

Finally, our effective tax rate is expected to stay around 23 percent.

This concludes our presentation. Thank you very much. Operator, we are now ready to take questions.

Operator: At this time if you would like to ask a question you will need to press star one on your telephone keypad. If you would like to withdraw your question press the pound key. Your first question comes from the line of Ian Douglas-Pennant with UBS.

Ian Douglas-Pennant: And first on the US destocking, and what gives you confidence it's going to end at the end of this quarter or at least and surely what is the chance that pushes into Q4, even next year or even that it marks some kind of underlying slowdown in the regions?

And then the second question is on Ostomy, what proportion of the very strong growth that we saw this quarter comes from the UK on an easy

comparison from last year. It seems like a very large number, does it mask some strength and in other regions that we should be aware of as well.

And one last sub-question to that one, am I correct to assume that the US destocking is almost irrelevant for that line item? Thanks.

Lars Rasmussen: The US, the fact that we have around US is that we have the sales out data. Those are data that our distributors have a legal obligation to give to us and they have a legal obligation to give us the numbers correctly. So you know that our sales or in-market sales is double-digits and it is correct that it's tough for us to estimate exactly what the pickup and when, because we expected it to be in this quarter, because that is what the contracts that we talked about in the previous quarters would suggest and that's our how our (sales) also happened.

What happened then was that especially McKesson went in and closed down 16 regional (stock centers) and that have impacted us. So we are quite certain that we will see a pick up but we can't give you a precise date, honest. When it comes to Ostomy Care, yes UK is, of course, helped by the fact that they have easy comparisons last year but the pickup in Ostomy Care is broad based and it is driven primarily by SenSura Mio and not least the most recent launch that we had, which is SenSura Mio Convex and we do grow in all markets and we do also see quite substantial markets here and also on the NPD level. So we are very, very satisfied with the pickup that we see there. We are, of course, when we talk about that' part also hold back in the US from the consolidation of stocks. It is primarily hitting our catheter parts but it's also noticeable at the Ostomy site. And you had a third question, which I can't recall?

Ian Douglas-Pennant: No, I think that was EBIT, but I mean just really quickly, would it be fair to say that if we excluded the UK, Ostomy was double-digit or very close to double-digit in the quarter growth?

Lars Rasmussen: I think that I can't comment on that I mean, this not driven by the fact that US picks up, but US is UK picks up, UK is the largest market we have. So when things are going well in the UK, it of course have an impact on the entire group, but it's also a fact that the pickup in Ostomy Care is broad based. It's

more or less every single country where we have launched and we have launched in a number of countries now, that's where you see that we have a sales which is higher than in the same period last year.

Operator: Your next question comes from the line of Chris Cooper with Jefferies.

Chris Cooper: First on your margin guidance please. Could you just talk through, which are the cost lines you expect to improve in the fourth quarter and did it help bridge the gap to the target at 33 percent if it could have been largely growth margins driven as we saw last year or you are expecting better progress in one or more of the OpEx lines.

Anders Lonning-Skovgaard: Yes. So first of all, overall, we have in the last several years had better a Q4 in terms of our EBIT margin compared to the previous quarter. So we are expecting a strong Q4. Lastly, our EBIT margin in Q4 was close to 34.5 percent. In terms of where we see an improvement, we see an improvement on our gross margin in the last quarter, due to the higher nominal revenue but also because we are on track of transferring the machines to Hungary that we have been talking about earlier this year, and we're also on track of reducing the number of the blue colors in Denmark. We have said earlier that we will reduce around 100 people in Denmark and we're also on track with that.

I also expect that we will be able to keep the cost levels that we have seen until now into the fourth quarter. So overall, I believe that we can deliver a good fourth quarter in terms of EBIT margin and that we will deliver our EBIT margin guidance in local currencies between 33 percent and 34 percent.

Chris Cooper: And perhaps (I'm chanting my own) here, but can I assume at this stage that if we achieve the level that was achieved last year, we get to pretty much the lower half of the range for the full year. Can we expect that to be a more likely scenario from this point?

Anders Lonning-Skovgaard: I will not comment on whether it's going to be in the high-end or in the low-end. Our estimate is that we will deliver on the 33 percent to 34 percent EBIT margin in local currencies and that we will deliver around 33 percent in Danish krone.



Chris Cooper: Sure. Okay. Just on working capital, (Anders) secondly, you've pointed to some I guess relatively transient factors, which have driven the increase this year. Maybe you could just give us a sense please of what the new normal is for Coloplast, particularly given the shift in the distribution prices that we've seen in the US, for example. And also then over what period of time, I guess, we should expect that to fall back to these levels?

Anders Lonning-Skovgaard: So overall, and that's also what I communicated at the Capital Markets Day back in June, the current level has in the last couple of years been in the level of 24 percent. I also estimate we will be able to deliver around 24 percent going forward, we have had some, you can say, fluctuations across the Group year-to-date. But my estimate is that the net working capital will be around the 24 percent and also going forward.

Chris Cooper: And is that to say by next year or by two years' time?

Anders Lonning-Skovgaard: Actually my belief is that we will see a net working capital also from next year in the level of the 24 percent. So that is my expectation.

Chris Cooper: And then just very lastly, then just maybe you can elaborate please on the skincare number this quarter, it just seems to be a little bit lower than we had been expecting, any more color there, was that one-off, so is that something you wouldn't expect to continue?

Lars Rasmussen: It's primarily based on that we had a very strong Q2 and hence there's nothing further that's a kind of a business that have a bit more of an erratic catch on that what we see in our chronic care business.

Operator: Your next question comes from Annette Lykke with Handelsbanken.

Annette Lykke: First question regarding emboldened Wound & Skin Care. At your recent Capital Market Day, you expressed this as a key focus area. And I just wonder if there is anything in emerging markets and the performance in the Q3 that has changed this? How far should we see a ramp-up in growth rates according to your investment plans here? And then my second question is regarding

Japan, just wonder if we have seen any effect on the change in reimbursements here or is that something yet to come?

Lars Rasmussen: The wound care part, no, we have no intention of changing the ambition that we have and the strategy that we talked about, the strategy is long term, dependent on a reasonable performance in Europe, a good performance in China and a good performance in the US and for the US we'll have to invest to get that because we have not invested much in the US, and we have not started to invest in the US now but long-term that US and China, they have to deliver. Currently, it's a bit hard for us to get the products into the hospitals as fast as we could do in the past. It's a more cumbersome registration process that we go through, but that doesn't change the fact that the Chinese market is a very large potential market for us and, of course, we invest to get our - you could almost say entre here because we want to lead that market and then the investments in the US will start next year. And those are the major drivers of growth and there's nothing that tells us that that would not be the right thing to do. Also, even though we have a quarter where we not double-digital growth this quarter. When it comes to Japan, the reimbursement change on catheters, the fact is that we will have to go to visit a lot of key players to implement this. We have to let people know that they have this possibility, so that they can start to ask for it and the doctors will have to be educated on what does that mean for them. So it's a slow penetration curve but we have the products in the market and we've also invested in the sales force for it, but it's at least in our business area, the (urge) to get in there is a little bit slower than in many other areas. So it would be the same in Australia actually.

Operator: Your next question comes from Ines Silva with Bank of America.

Ines Silva: I have just two on the margin, please. First of all, I was wondering if it would be possible for you to give us your EBIT margin in constant currency with some decimal cases or if not just give a qualitative comment. And how was the performance versus last year when we adjust for the non-recurring items that we saw in the third quarter last year?

And then my second question is also related to this, so you've maintained your guidance for margins in Danish krone of around 33 percent despite the

devaluation of the pound that we have seen. So I was wondering what are the effects that you have estimated that will affect the negative effect, I think you guided for DKK160 million annualized. Thank you.

Anders Lonning-Skovgaard: So in terms of your first question, we maybe not giving you the decimals in terms of our EBIT margin. And in terms of the second question, I think I already answered what we believe will drive the margin improvement in the fourth quarter. So it is coming back to the fact that we believe that we will have a better fourth quarter as we have had in the last couple of years.

We also believe that, we will see an improvement in our gross margin as we are on track with the transfer plans to Hungary and we're also on track with reducing the number of blue colors in Denmark. And I also expect that we can keep the cost levels we have seen end of Q3 in Q4, so those are the main drivers behind our EBIT margin in the fourth quarter.

Ines Silva: Okay, thank you. Could you just compare the margin in constant currency with last year, please, just a qualitative comment will be okay.

Anders Lonning-Skovgaard: It is on the level with the last year. So if we take the one-offs out, as you might remember we had the one-offs in our third quarter last year and if you take that out, it is on level with last year's EBIT margin.

Operator: Your next question comes from Michael Jungling with Morgan Stanley.

Michael Jungling: My first question is China. You mentioned in the Capital Markets Day that the sales force expansion was halted in Ostomy primarily in 2016 because of, I guess, lack of productivity high level of turnover and you had no idea at the time what the reason for the lack of productivity was? Have you worked out what the issue is and what will you do in 2017 for sales force expansion in China? Secondly on US Continence Care, the weakness that you observed in standard catheters, why is this not being offset with your more advanced SpeediCath solutions, which I suspect you are trying to push quite hard into the US. And my final question is on the implied Q4 margins, is it correct to assume that the sequential margin contraction or rather if you look at Q2 and Q3, you're seeing year-on-year contraction in margins, the pound has gone against you, so this would be further transactional EBIT margin contraction.

Should we expect the margin trend to continue, meaning that you'll come out in the high 32 percent range rather than perhaps at 33 percent. Thank you.

Lars Rasmussen: The China question, I think that at least I remember what we talked about a little bit different. We have a very strong performance in Ostomy Care in China and we also would continue to see that also in the quarter we talk about now. The Ostomy business in China is primarily an out of pocket business and not really impacted by (inaudible) or the activities that we have been facing in China is doing vis-a-vis hospitals. So actually our business cases for China chronic care is more or less unchanged, where we have seen a change of conditions is on the wound care side in China where it takes longer, or it takes more time for us to register the products in hospitals and that is why we have said that we will take a breath and make sure that we understand what the timing is and how we become maybe more effective and efficient in the way that we register end products. So that as we are employing new sales reps that we also know that it for quite some time they become profitable when we can payback their (whole salary) and that we probably have not figured out yet, so on that side we are not employing or opening new territories because that's what we have been struggling with. So I don't know that that's at least what we try to explain when we had the Capital Markets Day and I hope that answers the questions.

For the US Continence Care, yes, it is a balance, we're actually growing quite well in the advanced catheters and we are not having the same kind of growth in the old-fashioned catheters, but there is an effect on this, which is the reduction of stocks that we are experiencing right now. So therefore it's a little bit hard for me to give you more flavor on it, but on the line we actually see an in-market growth of our advanced catheters that are pretty strong. And the downside that I feel is primarily coming from the stock reduction or the consolidation of stocks that McKesson is doing. And for the margin question, Anders, over to you.

Anders Lonning-Skovgaard: Yes. So in terms of that the margin in the Danish krone, we believe we can deliver a margin of 33 percent, as I mentioned earlier under the assumption that the currencies is the same as August 5. That's the currencies we used for our Danish krone in guidance calculations.

Michael Jungling: And kind of from the margin side, because if you look at Q2 and Q3, the margins are down, minus 0.6 percent and if you assume the same transactional headwind, the margins in Q4 will probably also be down minus 0.5 percent, 0.6 percent. What it means is that you will be below 33 percent, but are you suggesting that you will have some cost savings or some initiatives to pretty much get us to the 33 percent (multiple speakers) 50 basis points, 60 basis points in Q2 and Q3.

Lars Rasmussen: And what I said earlier is that we are expecting a stronger EBIT in Q4, that we have also seen in the last couple of years, also due to the fact that we are having a couple of sales days more versus the previous quarters. And then I have to mention some of the other activities that we are expecting to kick-in in order to deliver the margin in the fourth quarter.

Operator: Your next question comes from Veronika Dubajova with Goldman Sachs.

Veronika Dubajova: I have one operational and two financial, please. If I can just start on the operational side of things and just looking at the emerging markets today, I appreciate you're having a slightly lower growth in China but comp adjusted, you had a very strong third quarter. And I was wondering whether if you want to call out any markets or particular tenders or deals in particular that helped you sustain that high teens growth rate in emerging markets.

Lars Rasmussen: It's actually to be quite honest, we're not growing more than we expected to grow in the quarter. We feel that we are suffering from the situation that we see in China and growth have come down from around 30 percent to around 20 percent, and of course, you can see that it's doing well, we have said that so many times that we almost forget to say it. And also Greece is having some kind of a revamp, but Greece is hit by the fact that there have been reforms there.

So it's a mixed bag or you could say that all in all, it's not too bad but it is actually below what we had, if you could recall just a year back, so that's my take of all the comparison that we have. So I would not call out any specific area that is doing fantastic, because there is none.

You could say we feel the heat everywhere, but we have solid businesses in all of the countries and therefore we sustain a reasonable growth.

Veronika Dubajova: And then my two financial questions, and the first one is on currency. And I wonder Anders, if you might be able to give us a sense as you think about the spot rates into 2017, what kind of headwind we should be bearing in mind as your pound hedges unwind, and as we start to reflect the spot rate into your P&L?

And then second question is just on the gross margin, if I recall correctly when we discussed this after the second quarter number, if you were expecting the gross margin to improve in the second half of the year. And (then) is a very simple question, was 3Q in line with those expectations and it's really just that the gross margin improvement is very much fourth quarter weighted or has your expectation on the gross margin development changed on with regards to the second half versus the first half? Thank you.

Anders Lonning-Skovgaard: Okay. If I take the first question around our financial items, I assume that that's the question, and now we see that in 2016/2017. So we are expecting to see hedging gains into 2016/2017, and right now with the current exchange rates, we are seeing hedging gains in the level of DKK50 million next year.

In terms of the gross margin, yes, we are still expecting that the gross margin will improve also here in the fourth quarter. I had expected a slightly better gross margin in the third quarter, but we have had better sales in our SenSura Convex portfolio and also better sales with our Biatain Silicone products. And those two product ranges are produced in Denmark to a significantly high unit cost and that offset some of the positive things we have seen both at our volume size both in Hungary and China.

Veronika Dubajova: And you said, Anders, one five or DKK15 million or DKK50 million on the hedge?

Anders Lonning-Skovgaard: DKK50 million.

Operator: Your next question comes from Niels Leth with Carnegie.

Niels Leth: My first question would be on the weakening British pound. So at this point in time, could you talk about the impact into fiscal 2017, and to what extent that's actually going to hinder your ambition to grow by 50 to 100 basis points, I know you're not going to give us specific guidance on that.

But just talk around what impact the weaker British pound will have? And then on the US market, so again would you expect the current destocking to move into the next fiscal year?

Anders Lonning-Skovgaard: So in term of the British pound and how we see that impacting our guidance for next year. We will come with our guidance for 2016/2017 when we announce our full year results for 2015/2016. We will announce that November 2. So I will not give any indications on how we see that expect that our long term guidance is as you know a growth in the level of 7 percent to 9 percent and also that we expect to improve our EBIT margin with 50 to 100 basis points and that's also how we see it in the future.

Niels Leth: And are you actually seeing the appreciation of some other currencies such as the American market currencies offsetting the impact of the British pound?

Anders Lonning-Skovgaard: In terms of - so for instance, this year we have had a negative impact from the Argentinean peso since January 1. We have also had negative impact from some of the other emerging markets currencies and that could offset British pound. But again coming back to our expectations for 2016/2017, we will announce that in November.

Lars Rasmussen: When it comes to the stock reductions, we don't know how many more stocks that, for example, McKesson have and how many they anticipate they will consolidate. But I think that we had sort of a double effect this year, we both had the impact from the currencies or from the contracts that we have changed and also from this announced stock reductions that McKesson have done. So we do expect a better in-market sales performance next year.

Operator: Your next question comes from Scott Bardo with Berenberg.

Scott Bardo: And first question, please, just relates to the strong performance in the Ostomy division, and in Europe in general. I think historically, you've grown 4 percent, 5 percent in Europe, maybe 6 percent, 7 percent in Ostomy, clearly you're doing better than that in this quarter. So can you comment, is this a step change in Ostomy and do you think growth now is sustainably higher at these levels or is this just really an after effect of some adoptions in stocking perhaps as new product launch, perhaps you can share some thoughts about that, the sort of medium-term growth expectations for the Ostomy franchise.

Second question on (is around) of the fourth quarter, it was my recollection that you've had a pretty significant meaningful contribution from a Russian tender in the fourth quarter last year supporting growth. I wonder if you could talk a little bit as to, do you have visibility as to whether that Russian tender has been renewed or is that something we think (will offer) a headwind in the fourth quarter?

Last question please and this relates to GPO contracts, and I appreciate, we've spoken a lot about this in the past in your Capital Markets Day, you highlighted in terms of strategy. But you did show a very good chart as to how many GPO contracts up for renewal over the next four months. Can you highlight little bit where you are with this new technology renew, which I understand is being discussed and negotiated at the moment, as well as how discussions are forming with premier and net asset sold in the Ostomy GPOs respectively. Thank you.

Lars Rasmussen: The growth that we have this year in Ostomy Care is 2 times, 3 times the market growth and of course we're enjoying that very much. And we have almost gotten used to grow more than the market, but, of course, we have an effect from the fact that we are more competitive in all of the categories that we come into now. And I don't know what the competitors are launching and at what point in time, so therefore it's hard to say when we get more competition going there, but it's a very good uptick that we have right now and we have a few more things in the pipeline. So I think it is first on, actually we have a lot more things in the pipeline but of course the growth rate will be a result of how innovative we are, how much market pressure we can put on it and what the competitors are doing. So what is helping us this year is that we



are launching all of these new products, what is holding us back is the fact that we have a much weaker performance in the US due to the reasons that we talked about before and also the fact that the latest things that we have launched SenSura Mio Convex.

We are up against capacity constraints and that means that we have not even started to launch that part on our bank to consumer channel. So I don't believe that you will see double digital growth every quarter going forward. What I think that we have increased our competitiveness in all of the categories that we are in and we have some pretty nice quarters ahead of us. When it comes to the Q4, the Russian tender, just right that was one of the things that helped us last year. We also had a tender win this year, but it's one-off but, of course, we have been through the numbers. Many times it's our expectation that we can land within what we have guided to in the market. So in that sense we did recall that it was some tender we took it into consideration. On the GPO contracts, yes, we've spent a lot of time talking about that and I don't think that I'm in a position where I can put more light on what will come out of that but what we said basically at the Capital Market Day was that these categories are becoming smaller and smaller, and that also means that it's not impossible at all to sell into those categories even though that you are not on the contract and we are utilizing that a lot and that's also why we see the growth that we see in the US. So with a strong new patient uptick in both Europe but also in the US with the currencies recently, we are not on any of the GPO contracts.

Scott Bardo: Thank you. Perhaps one point of clarification. So if you for an example don't get renewal of this technology contract, which I think you've enjoyed seeing our new products in North America, you don't anticipate that hindering, you all saw a three or four year outlook in any way. So that wouldn't be considered a negative as to your budget and planning, and if you could sort of clarify that; that would be important, please. Thank you.

Lars Rasmussen: It's our impression that you'll have some categories where there's no opportunities for the hospitals to go outside the category and purchase from other vendors than those who are on the category without they get a, you could say, a punishment or fine for that. And then you have smaller categories where they have preferred suppliers, but whether they do or not punished or

have any reduction of the rebate when they go outside of it. And Ostomy is such a small category that we can sell into those without any problems, at least that's how it's been handled.

Scott Bardo: Very good. And perhaps just lastly if possible, and this is a little more general question. And obviously we've seen the stocking volatility in Continence Care in North America and were going on for several quarters now. So the question really is, why is it do you think there was so much stocking in the channel ahead of this year, and was it a process issue or perhaps you can talk a little bit as to have this sort of build-up of inventory managed to get in that state in the first instance?

Lars Rasmussen: I think that's two reasons, one is that due to a contract structure where we are paying for or what they were buying, what the distributors or some of the distributors are buying from us instead of what they are selling out. I mean that is clearly not a good way to set it off and that's also why we have changed it as soon as we could.

And so that have been corrected and we actually see that we now are selling more where that was the case, but unfortunately we have this McKesson consolidation of warehouse where they have closed around 16 of the regional warehouses as they announced in May. And that just comes on top of it, but actually where we have the changed the contracts, we also see an uptick indeed in this type of (dual stocking).

Operator: Your next question comes from Carsten Madsen with SEB.

Carsten Madsen: Just two questions here, just your view on the UK, one thing is currencies but could there be any changes to the competitive situation in UK due to maybe competitors being less interested in investing in the country. What's your view on this and then finally on the US, when you look at sales out there, can you still say that you're gaining market share at roughly the same pace as it has been the case for the last three or four years maybe in Ostomy care in particular?

Lars Rasmussen: I think the first one is very difficult to answer because we have been very clear in our statements that despite the fact that Great Britain was voting for a

Brexit and despite the fact that we feel on the British pound, then we have made strong investments in the country. We think it's a very attractive market. We have a very good market position and a significantly improved market position over the last period. So we are very (quick) to invest, what that looks like if you are one of the local competitors or if you are one of the global competitors, I don't know, we have not seen commerce, we can risk a lot in the UK in many years. So it's primarily (inaudible) us and then the local ones that are active in the market. So as I said, they don't know but I think that they will answer you more honestly than they'll answer me if I called them. And then on the US, yes, I can safely say that, when it comes to gaining market shares we are on track and you asked specifically also about Ostomy care and that's very specifically, yes.

Operator: Your next question comes from Annette Lykke with Handelsbanken.

Annette Lykke: I was just wondering if Anders could tell if the fact that you have been supply restricted on the SenSura Mio product line, has that had a negative impact on gross margin for Q3? And should we expect that to be less in Q1 when you expect your supply conditions to be better?

Lars Rasmussen: The way that you should see this is I mean we intend to be very focused on the costs but because of that success of especially SenSura Mio Convex, we are selling significantly more off than what we expected to do and we run at our capacity limits always 24x7 which is in a sense not bad, also ours are expensive of cost. But what the impact is that we can't move out those machines as we had planned to do. We have to move something else. So the gross margin on those products are higher than what we anticipated them to do longer term because of this situation. So therefore as we get new capacity next year and we start that capacity up in low cost tranches, we start to see a positive impact on the gross margin on those products and then we can also move the machines that we have in Denmark. So in that sense, it does impact negatively but not the quarter, it's more the consequence of the surface basically is that we are moving out in a slow pace than what we had expected to do for those specific machines but we keep the pace on - we just find out the machines to move out, so the gross margin for the group is not impacted

but for this product category, yes, of course that is something, what I mean it becomes nitty-gritty.

I think that the takeaway message that I try to make is that the growth rates on Ostomy care is negatively impacted by the fact that we cannot fulfill the demand when it comes to SenSura Mio Convex and we cannot even use a life, our direct-to-consumer sales machine and resell to people who have not experience or who have not seen that we have this product yet. And so we have some options going forward that we are looking forward to use.

Scott Bardo: Lars, I think you were very kind enough to share with us back in 2014 what the conversion of SpeediCath and compact in North America was, I think you said 20 percent of revenue is around 10 percent of volumes back then. And could you please share with us what that number is today. Just help us work through the dynamic of the shift towards those products in North America.

Lars Rasmussen: That's why one should never say anything. I simply don't have that Q&A in front of me and I don't recall it from the top of my head.

Operator: Thank you. There are no further questions.

Lars Rasmussen: Thank you very much. And we're looking forward to seeing a lot of you in the coming weeks and that was primarily for the long period, will be primarily on us and (Elin) and then we will ship (inaudible) to South Africa as you have probably seen most of you in the stock release. So now we are looking forward to seeing fantastic growth in that region. Thank you very much. Have a great day.

Operator: Thank you. Ladies and gentlemen, that does conclude your conference for today. Thank you for participating and you may now disconnect.

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