

**COLOPLAST**

**Moderator: Lars Rasmussen**  
**May 3, 2016**  
**9:00 a.m. ET**

Operator: This is conference # 957899.

Operator: Ladies and gentlemen, thank you for standing by and welcome to the Coloplast financial statement webcast. At this time all audio participant lines are in a listen only mode. During the presentation we will have a question and answer session at which time if you wish to ask a question you may do so by pressing star then one on your telephone keypad. I must advise you the webcast is being recorded today, Tuesday, May 5, 2016. I'd now like to hand the webcast over to your presenter today, Lars Rasmussen. Please go ahead, sir.

Lars Rasmussen: Thank you very much. Good afternoon and welcome to our Q2 2015/2016 conference call.

My name is Lars Rasmussen. I am CEO of Coloplast and I have with me today CFO Anders Lonning-Skovgaard and our investor relations team. We'll start with the usual presentation by Anders and myself, and then we will open up for questions.

Please turn to slide number 3. In Q2, we saw continued strong European growth, further backed by the very successful SenSura Mio Convex launch, which I'm very satisfied with and which is reflected in our reported ostomy care numbers. We knew from the outset that the US would experience its hardest quarter this year, and that was the situation in chronic care. We did, however, see a lot of tailwind in the US urology and skincare businesses, which meant that the US actually ended in positive growth for Q2.

The growth in emerging markets in Q2 was below our expectations. Emerging markets performance currently paints a mixed picture, but a declining growth momentum in China, Brazil and Greece drives down overall momentum.

Overall, we continued to deliver 7 percent organic growth, which is in line with expectations. On a positive note, we continued to have a firm grip on our costs and we delivered a 33 percent EBIT margin for the first half of our fiscal year.

Today, the Board of Directors approved interim dividends of DKK4.5 per share, corresponding to a total interim dividend payout of almost DKK1b.

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 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 number 4. Year to date, our revenues grew 7 percent organically and 8 percent in Danish krone and amounted to DKK7.3b.

In ostomy care, organic growth was 8 percent and growth in Danish krone was 7 percent. For Q2 in isolation, growth was 9 percent. Growth continues to be driven by our SenSura and Brava portfolios, especially in the larger markets like US, UK, France and Germany. SenSura Mio Convex has now been launched in 15 markets and we are experiencing such a satisfying response from nurses and users that we are struggling to keep up with demands, and we have initiated further capacity expansion. Finally, our Assuma portfolio growth was also very satisfactory and was driven by Russia, Algeria and China.

In continence care, organic growth was 4 percent and growth in Danish krone was 5 percent. In Q2, the organic growth was 3 percent. The SpeediCath ready to use intermittent catheters continued to drive growth, and especially the compact category performs well. In the compact segment, we continued to see strong performance in markets like France and the UK. The big driver for

lower performance was the US, followed by the tender win in Saudi Arabia in Q1 last year.

As reflected at the beginning of the year, we expected to be hit hard by distributor buying patterns and inventory reductions in the US, and this materialized especially in our continence care numbers in Q2. We continue to see satisfying end market sales growth in the US and we expect the inventory reductions to tail off in Q3.

Performance in our Conveen collecting device portfolio remains challenged by high competitive pressure. 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 12 percent. In Q2, the organic growth was 8 percent. Sales of the Titan penile implant devices continued to drive performance and we saw a very satisfying Q2 with female pelvic health. On the other hand, our endourology business saw a challenging Q2 due to lower sales in emerging markets.

In wound and skin care, organic growth was 9 percent and growth in Danish krone was 11 percent. Organic growth for wound care in isolation was 6 percent. For Q2 in isolation, organic growth for the total business area was 9 percent and for wound care it was 3 percent.

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

The skin care business saw a very high Q2 from higher InterDry sales. And finally, the satisfactory performance continued with our contract manufacturing of Compeed.

Turning to our geographical segments, we saw organic growth of 5 percent both year to date and in Q2 in our European markets. The growth was driven by UK, France and the Nordics. Organic revenue growth in other developed

markets was 5 percent year to date and 4 percent in Q2. As explained earlier, order buying patterns from distributors impacted year to date and quarterly performance negatively in the US, whereas our growth rates in Canada and Japan remained highly satisfactory.

Revenue in emerging markets grew organically by 15 percent year to date and 14 percent in Q2. 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.

With this, I will now give the word to Anders, and please turn to slide number 5.

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

Gross profit was up by 7 percent to almost DKK5b. This equals a gross margin of 68 percent. We continued 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 increasing costs in emerging markets, an increase in depreciation, as well as costs associated with the expansion of our Tatabanya site and relocation of manufacturing to Hungary.

The distribution to sales ratio came in at 29 percent, on par with last year. The ratio was impacted by incremental sales investments in the US, China, consumer care activities and the UK of around DKK80m 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. Productivity levels remain high. We are investing more into our pipeline and into strengthening the links between R&D and production.

Overall, this resulted in an increase in operating profit of 7 percent, corresponding to an EBIT margin of 33 percent in both fixed and actual currencies. In Q2 in isolation, the EBIT margin came in at 32 percent.

Operating cash flow amounted to almost DKK1.1b and was up 27 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 on escrow accounts to settle Mesh claims. 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 in Hungary.

CapEx amounted to DKK227m year to date, compared to DKK325m in the same period last year. The lower absolute spend reflects the fact that investments in the new factory in Tatabanya will be included in the second half 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 new factory in Nyirbator.

Finally, the sale of bonds provided a DKK319m cash contribution, versus DKK403m last year.

Please turn to slide number 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 6 percent to 7 percent. The change in guidance in Danish krone from Q1 is mainly related to changes in the British pound, US dollar, Argentinean peso against the Danish krone.

Our guidance assumes stable growth rates in Europe. We also assume growth rates in North America and China will pick up in the second half of the fiscal year.

We are easing our expectation on negative price pressure to around 50 basis points impact on our topline for 2015/2016. We are successfully mitigating the negative price pressure in Holland and the German home care market. This leaves the minor reimbursement impacts from chronic care in Norway and wound care in Greece and France.

We don't have any news to share on the Mesh litigation since Q1. Our legal strategy remains unchanged and we continue to make good settlement progress.

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. Higher growth from our new product launches still means pressure on the gross margin, 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 Q2, we saw stable trends for most of our cost base, which we expect to continue. We now expect incremental sales investments of around DKK175m, as new investment cases have been approved to pursue the potential behind better access to hydrophilic catheters in Japan and Australia, as well as surgical urology opportunity in the US.

We expect our net financials to end the financial year 2015/2016 around minus DKK50m, impacted primarily by the net impact of cash flow hedges on the US dollar and British pound, as well as the devaluation of the Argentinean peso. The improved net financial estimate is primarily related to unrealized cash flow hedge gains on the British pound.

CapEx guidance for 2015/2016 is expected to be DKK600m to DKK700m. Our CapEx is driven particularly by investments in more capacity and for new products, including SenSura Mio and Biatain Silicone, and for the Tatabanya factory expansion. The change to the CapEx guidance is mainly related to fine tuning and timing of various projects in global operations.

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: Just as a reminder if you do wish to ask a question or make a comment you may do so by pressing star then the number one on your telephone keypad and wait for your name to be announced. If you wish to remove your question press the hash key. Once again, that's star then one to ask a question. And your first question comes from the line of Annette Lykke.

Annette Lykke: Thank you very much for taking time for my questions. I'd like to here ask if you could elaborate a little bit about your growth opportunities in the US market, assuming it has to be outside GPO contracts, assuming that the situation will remain status quo.

And I also in respect to the GPO contract ask, in connection with the Premier contract in September or later this year, it was mentioned at the ConvaTec call that it is a combined contract between ostomy and wound care. If you have any comments in this respect, that would be great.

And then I'd like to hear a little bit about reimbursement or the consequences of the changed reimbursement environment in both Japan and Australia. What is the short-term effect and what is the longer-term prospects of these better conditions?

Lars Rasmussen: Was that all? On the GPO side, with our current size, I don't see that we are blocked from pursuing market share growth in the US. And if you just take the last three years, we have increased our market share by 50 percent, so we have been growing a lot. And even in the first half, where we have a weak growth in the US because the distributors are selling stocks, we can see on the end market sales growth numbers that we actually are taking big market shares.

But I'm not trying to diminish the irritation of us not being on the GPOs, because of course that would just be another way of growing. Now we have to fight harder to get the growth that we get in the market, but we can grow and we have to do that. You also have to remember that we still have the advanced technology contract [with Vishant], and that means that we can't take our whole portfolio into the hospital but we can take the newest products that we have.

And in ostomy, the way it works is that you only push your new products in the hospitals anyway. You would never dream of bringing in your old products to the hospitals, because it is about getting access to the new patients. So of course we can also grow for the next period without being on the GPO contracts, but eventually we need to be there; no doubt about that.

Annette Lykke: Please can I follow up here, Lars, and ask you is there any sort of -- if you're not getting into those contracts, for example, during this year, is there a certain cap on how much you can see to grow the share and is there opportunities for you to maybe take market shares in the community part of the business, with in-patients experiencing complications with their products?

Lars Rasmussen: There are a number of ways that you can grow. First and foremost, in the current years or in this year and also in the years before, we have been doing or making a lot of independent contracts with hospital chains. So we have to make contracts and we can sell in several hospitals or in many hospitals, but of course we'd like to be in all of the hospitals.

But it does not mean that with our current size that we cannot take market shares and we are growing very strongly, especially in ostomy, in the US. And therefore I don't see that the situation has changed from how it was a year ago or two years ago or three years ago. We can easily grow as we want to grow in the next period, but as I'm saying, at one point in time, we need to get on those contracts, of course. And would we rather be there than not? You bet. But that's the situation right now, so fortunately we can sell our newest products via the advanced technology agreements.

On the Premier contracts, I'm actually -- could you repeat? You're saying that we would --

Annette Lykke: No, it was just --

Lars Rasmussen: -- that that would be a combined contract with ostomy and wound care?

Annette Lykke: Yes, that was mentioned on the ConvaTec call.

Lars Rasmussen: OK. I must say that I did not know that. But so far, we have not had any issues on being on contracts with our wound and skin care products. For most of the GPOs that has been quite easy for us, because the ostomy contract is a dual source contract whereas the wound and skin care contracts are multi-source contracts where you typically see seven or eight vendors, and there we have free access in most of the GPOs. So I wouldn't see that as being a big problem.



And then turning to the reimbursement in Japan and Australia, first and foremost, I'd like to say we are very happy with that development and we are very proud of it, because we feel that there has only been one situation before this current situation where we have been in what we consider to be the driver's seat in changing the reimbursement setup, and that was when we got reimbursement on catheters in France. And then now we are in a situation where we have got reimbursement not to the same scale and tune as in France, for example, in Japan and in Australia, but it does mean that in those two countries it is actually quite big value pools that are opening up.

Now, there's a very big outstanding job in both markets to educate the professional community and also the current users of what does it mean with these new opportunities and this new funding, and then to create a more -- you could say a kind of standard of care which is more in line with what you see in other developed markets, and that would drive a very different volume in those markets. So we are looking very much forward to that and we feel that we are set up in a way in those markets where we are really able to also follow through on these new opportunities.

Annette Lykke: Thank you very much.

Operator: Your next question comes from the line of Michael Jungling of Morgan Stanley.

Michael Jungling: Thank you. Thank you very much. Three questions, please. Firstly, when it comes to organic constant currency sales growth, would it be possible to give us the growth rate by decimal point? I know that sounds a little bit tedious, but is it below 7 percent or above 7 percent in the second quarter?

Secondly, on China, what is the organic constant currency growth for the second quarter? And is the slowdown that you've mentioned broad based or is it more in certain regions in China where you're experiencing a slowdown?

And then thirdly, for the US, have you seen the expected acceleration in sales growth in the third quarter? And what was it in the second quarter, please?  
Thank you.

Lars Rasmussen: Maybe I could open up with the last question about the US. So what we see in the US -- I'd just like to reiterate that we have changed the contracts last year, so that where we previously paid a bonus on what the distributors were buying from us, we are now paying a bonus on their end market sales numbers, which means that if they would have any excess stock, they would sell that out before they are buying anything new from us.

So we knew that and that is -- we estimate because we don't have the exact numbers on our customers' stock, we estimate that is -- we are at that point now where they start to buy in a normal pattern again. But we are getting the end market sales numbers or sales out data, and we do see that we have a continued strong sales growth on both ostomy and continence care, so that has not changed. So I don't know what you are referring to when you say the growth acceleration.

Michael Jungling: I think part of your guidance for the full year was that in the second half you would start to see an acceleration.

Lars Rasmussen: Yes, yes. We expect to see an acceleration in this quarter, the quarter that we have just started now, which is our third quarter, if that was the question.

Regarding China, then the situation in China is that we have increased our staff in our sales or our commercial organization in China quite significantly over the last few years. And we do see that there is a market -- I don't know if I should call it a slowdown, but we see a reaction in the market to the pressure from the authorities on the way that the public sector is conducting business in China. And that also means that it is a bit harder for us to register especially wound care products in new hospitals.

And we take this as an opportunity for us to look at our current organization, because we have been expanding so fast that there are a few things that we'd like to work with and change over and therefore this year we are not employing more new sales people. We simply take a year where we are stabilizing what we have to prepare for further growth. And that means that for this current year we expect to have a growth rate to the tune of 20 percent

to 25 percent, where we have been above 30 percent in the last years that we have seen. So that's where we are.

I'd also like to put it a little bit into context, because this is primarily hitting wound care and it doesn't take a lot of nominal value to really move the percentages there. So what we are missing by in this quarter in China is around DKK50m, and that is up against a base of DKK33.5b. So it is -- we think it's manageable and we don't feel that we have anything which is broken in China.

Michael Jungling: Great. And then just question number one, please.

Anders Lonning-Skovgaard: Yes, Michael. The organic growth in the second quarter was 6.5 percent.

Michael Jungling: OK. And what was it in the first quarter, because if we look at your whole numbers and we do a weighted average, it seems to me that probably in Q1 or so you did 7.4 percent. Is that reasonable?

Anders Lonning-Skovgaard: No. The first quarter, the growth was 7.2 percent and then 6.5 percent, so year to date 6.9 percent.

Michael Jungling: OK. And just a follow-up on the US business. Can you comment on what the US business grew in the second quarter? Because in the past it seemed it was - - the guidance was flattish growth. Is that what actually happened in the US in the second quarter?

Lars Rasmussen: It's around 2 percent.

Michael Jungling: Great. OK. Very helpful. Thank you.

Operator: Your next question comes from the line of Ian Douglas-Pennant of UBS.

Ian Douglas-Pennant: Hello and thanks very much. Just on your guidance again, is it reasonable to say that your full-year margin is now likely to be below 33 percent rather than above, given -- I'm just thinking in terms of currency, given you've lowered your revenue guidance but not your other for currency?

And then the second question is on the UK. You said your UK growth was strong this quarter. Could you comment on the growth excluding the prescription fulfillment fee or the shipping fee in the UK, so maybe just the wholesale sales? And we've seen data from the UK and we've heard comments from one of your competitors that both have suggested that this market is slowing down, so I just wanted to get your thoughts there. Thanks.

Lars Rasmussen: Let me start with the UK question, because I think that there are several data sources in the UK. So if I start with the most reliable one I have, which is our current organic growth in the UK, it is very strong and very close to double digit both in our business to business and also in our Charter Healthcare area.

And then you can use either PCA data or you can use IMS data when you look at it. And if you check out on those two data sources, you'll see that they have very, very different takes on how much the market is growing. And we think that the PCA data is quite understated, because first and foremost it's England only and secondly they do not include prescription services. But it's something I think that would take a little bit more time to discuss, and I think that you're going to meet a couple of my colleagues in the next days, so you can entertain yourself with them.

Male: Thank you, Lars.

Anders Lonning-Skovgaard: And, Ian, in terms of our guidance in Danish krone on EBIT, it is around 33 percent EBIT margin guidance in Danish krone.

Operator: Your next question comes from the line of Martin Parkhoi of Danske Bank.

Martin Parkhoi: Yes. Martin Parkhoi, Danske Bank. Two, maybe three questions. Firstly, just on your long-term targets, because I remember approximately two years ago you have applied -- you said you were targeting 25 percent in emerging markets; now we are around 15 percent. And since emerging markets account for around 15 percent of your sales right now, then it's actually sliced off 1.5 percentage points of Group growth. So should we see the upper level of this long-term target as quite unrealistic as the situation looks right now?

And a bit associated with this is that you've previously said that the impact from generic competition potentially on SpeediCath is included in your long-term targets. But have you, due to the slowdown in emerging markets, actually lost the buffer so it could mean that you could go below the 7 percent following this potential generic competition?

And then my second or third question, if you call it, that's just regarding this -- Lars has talked a little bit upon it, saying that you will not employ more salespeople in China for this year. But now you've invested a lot of money in emerging markets for several years and now we see growth going down. Are you satisfied with the return that you're seeing right now on this significant investment that you do every year, and should we expect to see a slowdown in the years to come on the investments in additional sales initiatives? That's all.

Lars Rasmussen: Yes, but that was also quite enough, because it's pretty tough questions, Martin. Because it's inevitable that there is a slowdown in emerging markets right now, due to the funding is gone in many markets where the oil prices are very low and also raw material prices are very low right now, and of course we feel the impact of that.

So right now, we're around 15 percent growth, but that is also in a quarter where we are taking an organizational break in China. So it's definitely below the 25 percent. We are looking into what this means also for our investment appetite, but we are not pulling out of any of these countries.

And I also feel that if I look at our local EBIT margins, I think that overall they are quite healthy in most of the markets that we're looking at. So we knew, and I also think that we discussed that when we started to invest in emerging markets, we knew that you will have bigger uncertainties and also bigger difference between when things are really rolling and when they're really not rolling than you see in the more stable markets.

So right now, we have less uptick in emerging markets than what we invested for. I would say on the other hand we actually have more uptick in Europe than what we thought when we started to invest here. We would be much more prepared to have a dialogue about this when we meet at our Capital

Markets Day, but I think that you have a point, which is that emerging markets is lower than what we thought when we talked about it two years ago.

I would also like to underpin that the fact that we are working with our organization this year in China in order to figure out how to continue the expansion we do there is not to be seen as a sign of that we don't want to invest further in China. We see this as an up and coming market, and we have far from worked with to get that market to where we want it to be.

Then I would like to say that there have been a couple of positive things, especially on the catheter side, compared to what we knew when we talked about the new strategy, and that is Japan and Australia. Because the fact that those two markets have opened up, it's -- I would make no secret out of it that we see that the improved reimbursement schemes that we see there means that we can introduce our ready to use catheters in those markets and also the compact versions of them, and that means that we are going to do that full force. And that is actually something that weighs on the positive side on the SpeediCath portfolio.

So I actually think that we are in a better position than I would have thought when we discussed this a couple of years back.

Operator: Your next question comes from the line of Veronika Dubajova of Goldman Sachs.

Veronika Dubajova: Good afternoon, gentlemen, and thank you for taking my questions. I have three, please. The first one's just on ostomy, and I know we spent a lot of time talking about continence and stocking and all that, but I'm just curious on ostomy, quite an impressive growth rate in the second quarter. How should we be thinking about that trend as you move into the second half of the year?

And I guess, Lars, you called out the Convex launch as one of the drivers. What's your capacity currently with where you are to sustain that very high single-digit growth rate into the rest of 2016?

My second question is you did mention in your press release that you've seen worsening of the competitive environment in some Europe markets for continence care. I was hoping you might elaborate on that.

And my last question's just on gross margin and any comments you might have on the full-year outlook here. Thanks so much.

Lars Rasmussen: On the gross margin -- OK. All right. I would leave that one to Anders, if he would like to fill in on that one. But on the ostomy care side, I think that we have the needed capacity to sustain the current growth. Depending on what kind of products that the customers are going for, we could also do more, but when it comes to Convex, we are completely exhausted and we are waiting to get new capacity. So you could see that as a problem. I just see it as very positive that we are actually growing significantly over what we expected in this particular segment.

On the catheter side, actually, I think it's very important to say that if you take the underlying growth or the in-market growth in the US and you take into consideration the fact that we won this huge tender in Saudi Arabia last year, then the growth rate that we see in catheters right now is exactly the same as we saw at the same point in time last year. So there's basically no change to our growth rates. We are struggling -- and I think that's not a secret, especially in Germany, where we do not have the same market shares as we have in other markets when it comes to catheters. But that's what we're investing to get, every single day, to get on top of that.

And on the gross margin?

Anders Lonning-Skovgaard: Yes. And in terms of the gross margin, we are expecting to see a gross margin that is improving in the second half. It's due to scale, but it's also due to the fact that we are on track with the plans of moving the machines from Denmark to Hungary. And we have already started the production of Biatain Silicone Compeed and also our SenSura Mio products in Hungary. We're also on track with the activities within Innovation Excellence to reduce the number of production employees in Denmark with 100. So we believe that these activities will improve our gross margin in the second half of this year.

Veronika Dubajova: So if I may follow up on that, Anders, I should be thinking of the gross margin as flat on a full-year basis, with down in the first half and up in the second half? Is that a fair assumption?

Anders Lonning-Skovgaard: Yes, that's a fair assumption.

Veronika Dubajova: OK.

Lars Rasmussen: Normally, we don't give that much credit to this specific line. I think that if you look at our overall guidance, we actually expect a stronger second half on the EBIT line than we had in the first half. And that comes from multiple sources, but gross margin is one of them.

Anders Lonning-Skovgaard: One of them, yes.

Veronika Dubajova: OK. Understood. Thank you very much.

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

Chris Cooper: Hi. Good afternoon. Thanks for taking my questions. Firstly, on the Charter business, please, can you just describe to me how the market share has developed over the last few quarters, particularly relative to the same quarters in the previous year? I'm just trying to get a sense, really, for how much of the growth in home care is the underlying market and how much is restoring the share that you've lost.

Secondly, on the Mesh litigation, please, I saw that the MDL order had been stayed until June 1.

Lars Rasmussen: Yes.

Chris Cooper: Can you just explain to us what that means in practical terms? Should we be expecting a change in the pace of settlements one way or the other from this date?

And then lastly, please, just on the GPOs again, do you have any more insights yet on why you were unsuccessful on the Novation GPO contract



back in, whenever that was, back in February or March? And (multiple speakers).

Lars Rasmussen: Why what?

Chris Cooper: Sorry, why you were unsuccessful in securing the Novation GPO back in March. I just wondered whether that has led you to adapt your approach in any way for the GPOs that are coming up later this year.

Lars Rasmussen: OK. When it comes to the Charter market shares, I think that the only visibility I can give you on that one is that with the current growth, we are taking market shares. And maybe contrary to what we said a year ago, where we were quite firm that we would probably pick up market shares from new customers and not from people who have left us, then we actually do see that customers that left us when we had the problems last year, that they are also coming back, and we are very, very happy to see that.

But that market share gains of new customers and also people coming back means that we are actually growing quite strongly also in Charter, in the UK, and that actually goes for all the segments that we are handling in Charter.

On the Mesh litigation, it's correct that we have a stay until June 1, and that means of course that our burn rate is lower. Because if we didn't get the stay, then we would have to do a discovery, perform discovery, and that is quite expensive, so that means that we are spending a lot of time and efforts on settling cases. And I think that the progress in settling cases is good and very satisfactory. So for my part, I think that we could say that we are on track with the situation on the Mesh litigations.

On the GPO side, it's very hard to say what we can do different on that one, and of course we are doing our utmost to improve on our strategy. But I think that you can see away from the fact that there's a share issue in this, and we do know from the intelligence that we can pick up in the market that price wise we are very competitive, so it's not price. And we also have these products in the markets or in those GPOs on an advanced technology agreement, so it actually means that there is demand for the products. So therefore it must be the raw share that we talk about.

Chris Cooper: OK. Thank you. And just one follow-up, perhaps, on the Mesh litigation, please. So the stay has I guess artificially lowered the burn rate, but does that then imply that we can expect the burn rate to increase once the stay date has passed us, beyond June 1?

Lars Rasmussen: But we have had the stay prolonged multiple times. So I guess that the stay or the background for the stay is that the judge is seeing a satisfactory progress on the settlements. And as long as we are able to produce that, I think there's a likelihood that we can also keep the stay.

Chris Cooper: Got it. Thank you. I'll get back in the queue.

Operator: Your next question comes from the line of Oliver Metzger of Commerzbank.

Oliver Metzger: Yes. Hi. Thanks a lot for taking my questions. The first one is just on your urology care, in particular the penile implant. So one year ago you reported some weakness, and at that point of time, you were not able really to identify the reason why the demand has decreased. So now, in retrospective, have you identified any reasons for that weakness? And is also the current strong momentum rather a catch up, or do you see really improved underlying conditions?

My second question is more on the wound care outlook. So on the pure wound care business, the 3 percent is definitely a lower performance in this quarter than two previous quarters. So does the whole environment appear more challenging, or was this more a one-time effect mainly due to the situation in France?

And my third question is you mentioned that -- or you explained higher R&D spending is due to initiatives between production and R&D. Potentially, can you can just elaborate a little bit about these initiatives?

Lars Rasmussen: Yes. It's not good when the outlook is soft on penile implants, but that was what we had last year and I think that we are not able to explain it. What we initiated last year was a lot of activities on the marketing side, so we have had a lot of training sessions.

So the way it works, when it's penile implants and also penile, pelvic health, is that you actually educate doctors. And the way you do it is that you have an expert educating a number of doctors, so that they try it out themselves and get familiar with your specific device. And we are actually running a much higher number of these training sessions since -- or an increasing number over the years, and a lot since last year on penile implants but also on the female pelvic health side. And I expect, or I would presume that that is also what is paying back in the numbers that we see now.

And since Astora -- just to continue on that, since Astora has closed down their business, we are also doing a lot of training seminars with doctors who are in need to learn about new technologies and new products. So that is very, very important to us to continue to do that, because that is how we are securing future growth also in that part of the business.

When it comes to wound care, yes, you're right. We are hit by the reimbursement change in France, so that is an effect there. We are also hit by the fact that we are doing the activities that I talked about previously in China, and we expect the growth to come back strongly in China. And finally, Greece have also changed the way that they are reimbursing or paying for products, and that has also led to a reduction of the consumption in Greece. And those are the three things that are kicking in.

For the rest of the markets, we actually see a very nice uptick. And I'd like to add, actually, that we have launched just recently the silicone product, the Biatain Silicone product in China and we are looking very much forward to see how that will impact the market, because we have been impacted negatively in China by the fact that it is not possible for any companies in China to prolong their contract on the Zilva products. So that also means that our Zilva products went out of service last year and we feel that on the growth rate, and now we are able to fight back with Biatain Silicone. So we have some positive things on that side also.

On the higher R&D cost, we have a number of very interesting products in the pipeline and they'll take a little bit more cost out, and that's basically it. And

we have been discussing that many times over the years, that we can't give you a fixed percentage on R&D. We invest what we think is necessary right now, and right now we need a little bit more so we invest that.

Anders Lonning-Skovgaard: And then, to add on that, we have also decided to invest more into our pilot in order to be better in ramping up the production of our new products.

Oliver Metzger: OK. That was helpful. Thank you very much.

Operator: Your next question comes from the line of Scott Bardo of Berenberg.

Scott Bardo: Yes. Thanks very much for taking my questions. So, firstly, sorry to come back to the US ostomy GPO contract. I think there was quite a bit of confidence amongst the organization early part of the year to secure a GPO contract in the US for ostomy. So I just wanted to understand, do you think there's any potential connection between the readout for Novation -- you mentioned it was some market share related phenomenon -- also to the Premier contract? So is your read that these things are likely to go in the same direction?

Also would like a little bit of clarification around the advanced technology contract that you have. It was my understanding some three years ago you had this contract in place, a three-year contract, and I think you announced today that that's been extended to the end of this year. Is it my understanding then that this is not renewed into 2017, or what is the mechanism for the extension here which seems to be on a slightly different time horizon to what we've had historically for this component of the contract? So that's a specific on the GPOs, please.

On the US also, I think you explained quite well some of the stocking patterns, so on and so forth, in both ostomy and continence. You do pull out within the release quite a marked decrease in the standard catheter segment in the US, and I know this has been a trend for a little while. But would you say this decline is now accelerating? And really I'd just like to get a feeling for how your value upgrade exercise is going, what percentage, if you like, of the

catheters in the US now are now of the hydrophilic category. An update there would be very helpful.

So I'll pause there, if that's OK, and I have one follow-up. Thank you.

Lars Rasmussen: Yes. On the GPO contracts, I think you're right that we actually had the competency in the organization to work up against coming with an offer for the GPO officiant, or the GPO contract for ostomy on [ambition]. And we also were part of the auction process all the way to the very last bid. So I would also say that we're probably a bit surprised that we are not part of it, because normally you would be shoved out much earlier.

And that tells us that we have the products and we have the competencies to be in such a process, and I come back to my previous statement that I can't take anything else out of this than it must be a share issue. And we need to find a way to get a higher share and thereby be in a better position to get in there. And that's of course what we're investing for and I think with the financial strength of the Company, we have the muscle to invest what it takes and we are very committed to do that.

So this doesn't mean that we in any way have given up on getting a market share in the US against the same competitors as we have in Europe, where we get a market share which is to the same tune as we have elsewhere in the world.

The contract or the advanced technology contract that is running out at the end of this calendar year will have to be renegotiated before the end of the year, and we will have to see how that goes and how that works. But I do feel that we also there are equipped to have the necessary discussions.

When it comes to catheters in the US, we are growing significantly above the market when you look at our in-market sales data, and that is on the back of our standard catheters, if you will. We are not pushing our standard catheters in our marketing communication and in our marketing activities. We are pushing solely the hydrophilic coated catheters and where we can we are pushing the compact catheters. So therefore you also see that the growth is

made up from what we are winning in compacts and the hydrophilic catheters, and that is really how we go about it.

Scott Bardo: OK. Great. Thank you. Perhaps just quickly a point of clarification. So just to understand it, at the moment for the organization in the US or the organizational setup in the US, your entire US hospital strategy, if you like, for ostomy at least, relates to this advanced technology agreement which is due to expire this year, but you're optimistic you can renew that at the end of this year. I think that's what I understood you said (multiple speakers).

Lars Rasmussen: No, that's -- I'd like to maybe put a little bit more flavor on that. We have made a pretty large number of contracts, independent contracts with hospitals that are working under different GPOs. So we have picked out a number of, you could say, high profile hospital chains and we have made contracts with them, because they can make contracts outside of the GPO, contracts with companies that they would like to have in house. So that is the number one thing that we have been doing. And then we have been pursuing the GPO contracts.

But we will have to keep continuing to do independent contracts. It's just a more cumbersome way to get access to hospitals. But that's, of course, what we do until next time we send this up for negotiations.

Scott Bardo: OK. Thank you. And just very lastly on this contracts idea, I think you've been making some excellent progress in wound in North America. I think you pulled out historically that having negative pressure wound would be helpful for securing tenders. That obviously didn't quite work out, initially at least. Are you seeing at the moment any tenders or things that -- opportunities that you're now losing from not having this complete portfolio in North America in wound?

Lars Rasmussen: No, it's not -- it might be. I don't know. Because it's not what is being requested right now from the US organization. It's other things that they're pursuing and which we are right now developing. So it's very much inside of the silicone segments that they are asking for, for a complete portfolio.

Scott Bardo: Understood. Thanks very much for taking my questions.

Operator: Your next question comes from the line of Alex Kleban of Barclays.

Alex Kleban: Yes. Thanks for fitting me in. Maybe I could ask just two. So first one is -- and I know you have to be cautious, but it's around Hollister and their settlement and market share dynamics in ostomy. So just given where you're growing relative to what ConvaTec have reported, clearly you're taking some share or ConvaTec are losing some share. Is Hollister also losing share in order for you to have the kind of growth rate you're posting right now? Just if you can give any comment around that situation.

And the second one is maybe a longer-term one. Just around the partnership with Ambu, and whether we can get your sense of a total addressable market for the disposable cystoscope product. Understanding it's not a forecast, but just getting a [term] that could help us put that opportunity in perspective for the longer term. Thanks.

Lars Rasmussen: I'm so sorry. I don't feel that I have -- I'm very well equipped for those two questions. We don't feel it's appropriate that we comment on Hollister and (inaudible) situation. But I'm sure that you probably can get an easier access to them than we could to ask the same question.

On the Isiris launch, we are just launching and it's been well received. But the sales numbers are negligible at this point in time, so time will show. It is a market that we are building, but still this is still a small part of the business.

Alex Kleban: No, I think that's fair enough. I just wondered if you could maybe give us a sense of total number of procedures, potentially, times a rough idea of price, even if you don't want to give us either of the two components, but just to help us solve that equation and what's the total, total. If you had 100 percent and then we could think --

Lars Rasmussen: I think that we will at some point in time be able to give you a trustworthy answer to that. But we are learning about the market as we speak, because it's -- the product of course works. We also know what number of procedures are out there. The big question is are the hospitals willing to pay for reducing the risk of infection to the tune that they need to pay when they're using the

single-use devices, and there we have something to learn about this specific segment because we have to create our own data.

Alex Kleban: Yes. No, that's fair enough. And then, similarly, just a quick follow-up on that, but have you looked yet at colonoscopy? I understood that was in the pipeline for this joint venture for a disposable colonoscopy. Is that the case and do we expect a launch at some point on that one?

Lars Rasmussen: We don't comment specifically on what we have in the pipeline for any of our business lines. I'm so sorry.

Alex Kleban: OK. No, it's fair enough. Worth a try. Thank you.

Operator: There are no further questions at this time. Speaker, please continue.

Lars Rasmussen: All right. Thank you very much. But then we would like to say thank you for participating, and looking forward to seeing you over the next period.

Operator: Thank you. That does conclude the conference call today. Thank you all for participating and you may now disconnect. Speakers, please stand by.

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