

COLOPLAST

Moderator: Lars Rasmussen
February 2, 2016
3:00 p.m. GMT

Operator: This is conference # 956828.

Thank you for standing by and welcome to the Coloplast earnings conference call Q1 2015/2016.

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 and one on your telephone.

I must advise you the conference is being recorded today, on Tuesday, the 2nd of February, 2016.

I would now like to hand the conference over to your presenter today, Lars Rasmussen. Please go ahead, sir.

Lars Rasmussen: Thank you. Good afternoon and welcome to our Q1 '15/'16 conference call. My name is Lars Rasmussen; I am the CEO of Coloplast, and I'm joined by CFO Anders Lonning-Skovgaard and our Investor Relations team.

We will start with a short presentation by Anders and myself, and then we will open up for questions.

Please turn to slide number three. Today, Coloplast delivered a set of numbers exactly in line with our expectations when we ended the financial year. I'm glad to see that we are succeeding with our efforts, especially in the U.K., and that the Department of Justice investigation in the U.S. is now fully behind us.

It is satisfying to see us deliver a 33 percent EBIT margin in Q1, considering that we have increased our transfer activities and invested further in markets like U.S., U.K., and China.

Today the Board of Directors approved a new share buyback program of DKK1 billion. The program will run over the next two fiscal years and underlines our commitment to shareholder returns.

Our organic revenue guidance for 2015/2016 is unchanged, with a growth of 7 percent to 8 percent, whereas our growth in Danish kroner is now expected to add around 7 percent. In addition, our EBIT margin guidance in fixed currencies is unchanged at 33 percent to 34 percent, but we now expect around 33 percent in Danish kroner.

Please turn to slide number 4. Revenues grew 7 percent organically and 11 percent in Danish kroner, and amounted to DKK3.7 billion.

In Ostomy Care, organic growth was 8 percent and growth in Danish kroner was 9 percent. Growth continues to be driven by our SenSura and Brava portfolio, especially in the U.K., the U.S., and our Nordics region.

The situation in Charter was improved significantly. We are currently increasing our market share with new customers, and we have had some success with the winback campaigns.

Finally, we received very good feedback from existing customers to the changes we made to Charter earlier. So overall, I'm very satisfied with what I see in the U.K. at the moment.

SenSura Mio Convex has now been launched in 12 markets, and we are experiencing a very satisfying response from nurses and users. Finally, our Assura portfolio growth was driven by good performance in Russia, Algeria, and China.

In Continence Care, organic growth was 6 percent and growth in Danish kroner was 10 percent. The SpeediCath ready-to-use anti-leaking catheter is

continuing to drive growth and especially the Compact versions performed well.

In the Compact segment, we see strong performance in markets like France and the U.K.. The tender win in Saudi Arabia in Q1 last year, increasing competition in selected European markets, and inventory buying patterns in the U.S. all contributed negatively to growth in the quarter.

Performance in our Conveen collecting device portfolio was satisfactory in the emerging markets region and in the U.K.. Finally, sales growth for our Peristeen products remains satisfactory, especially in the U.K., France, and the U.S.

In Urology Care, organic growth was 7 percent and growth in Danish kroner was 15 percent. Sales of the Titan range of inflatable penile implant devices continues to drive the performance, and we saw a satisfying performance in the quarter.

We also had a good quarter with female pelvic health. Our endourology business continues its satisfying performance, especially in Europe.

In Wound & Skin Care, organic growth was 10 percent and growth in Danish kroner was 15 percent. Organic growth for wound care in isolation was 9 percent.

The growth was driven by Biatain sales, in particular Biatain Silicone in Europe, as well as strong growth rates in China and Greece. The skincare business saw satisfactory growth in the quarter, and the contract manufacturing of Compeed contributed to the growth.

Turning to our geographical segments, we saw organic growth of 5 percent in Q1 in our European markets. The growth was satisfactorily driven by U.K. and the Nordics, whereas both the Netherlands and Germany continue to have low growth rates. The pricing pressure remains centered around these two markets.

Organic revenue growth in other developed markets was 6 percent for the year so far. Order buying patterns from one of our largest U.S. customers continued to impact quarterly performance in the U.S., and the impact in Q1 was negative within Continence Care. During the quarter, we fully normalized our campaign activities in the U.S.

Finally, our growth rates in Canada, Japan, and Australia all remains satisfactory.

Revenue in emerging markets grew organically by 16 percent in Q1. The growth was driven by China, Russia, Argentina, (Nigeria), and Greece, whereas Saudi Arabia impacted the growth rates negatively.

With this I'll 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 11 percent to around DKK2.5 billion. This equals a gross margin of 69 percent, on par with last year.

We continued to see improvements in our production efficiency at our volume sites, which compensates for the negative gross profit margin impact from the launch of new products, where the production economy is not yet fully optimized. The gross profit was also impacted by increasing product in emerging markets and increasing 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 28 percent, 1 percentage point lower than last year. The ratio was impacted by incremental sales investments in the U.S., China, and the U.K. of around DKK35 million.

The admin-to-sales ratio came in at 4 percent of sales, on par with the recent trend.

The R&D-to-sales ratio came in at 3 percent of sales, but increased 15 percent compared with the same period last year. This is due to a higher general activity level compared to last year.

Overall, this results in an increase in operating profit of 11 percent, corresponding to an EBIT margin of 33 percent in both fixed and actual currencies. Operating cash flow amounted to DK629 million and was slightly lower than last year. We saw positive impact from higher absolute earnings and higher paid taxes last year, which was offset by cash settlements on currency hedging activities and 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 DKK124 million for the quarter.

Finally, the sale of bonds provided a DKK317 million cash contribution.

Please turn to slide 6. Concerning the mesh litigation situation in the U.S., we don't have much news to share. Our legal strategy remains unchanged and we continue to make good settlement progress, as reflected by the increase in restricted cash on our balance sheet.

Our organic revenue guide for 2015/2016 is unchanged, with a growth of 7 percent to 8 percent, whereas our growth in Danish kroner is now expected at around 7 percent. Our guidance assumes stable growth rates in Europe, and we now expect that the good Charter performance can continue throughout the year.

We also assume growth rates in North America will follow the stable trends seen last year. But it should be noted that due to distributor buying patterns last year, combined with the impact from contractual changes, we expect the Q2 performance in the U.S. to be flat, which also would have a negative impact on our Q2 sales growth in Continece Care.

We expect a negative pricing pressure of around 1 percentage point on our top line, and this is reflected in our guidance. The negative pricing pressure is especially driven by Holland and to a lesser extent by the German homecare market and the price reform in Norway within Continece Care.

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 kroner. 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 Q1, we saw stable trends for most of our cost (base), which we expect to continue. We also expect incremental sales investments of around DKK150 million.

The changes to the guidance in Danish kroner both for the top line and the EBIT margin are related to changes of the British pound and the Argentinean peso against the Danish kroner. Further, several smaller currencies like the Brazilian real and the Norwegian kroner also have provided some headwind in the calculations.

We continue to expect our net financials to end the financial year 2015/2016 around minus DKK100 million, impacted primarily by cash flow hedge losses on the U.S. dollar, gain on British sterling, as well as devaluation of the Argentinean peso. CapEx guidance for 2015/2016 is expected to be around DKK700 million, and it is driven particularly by investments in more capacity and for new products, including SenSura Mio, Biatain Silicone, and Compact Eve and the Tatabanya expansion. Finally, our effective tax rate is expected to be around 23 percent.

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

Operator: Thank you very much, sir. We would now like to begin the question and answer session. If you would like to ask a question please press star and one on your telephone and wait for your name to be announced.

So your first question comes from the line of Ian Douglas-Pennant from UBS. Your line is now opened.

Ian Douglas-Pennant: Thanks very much for taking my question. The first was on the guidance for the year, because the Q4 results you said that the guide this year was going to be H2-weighted because of the U.K. and the U.S. taking time to ramp up; and now you're talking up the U.K. and U.S. -- well, at least in Ostomy.

So why are we not seeing a stronger quarter this quarter both in terms of revenue growth and margin accretion? Is there some factor that you weren't aware of offsetting that? And then I've got a follow-on as well, please.

Lars Rasmussen: I think that's a good starting point. It's primarily because the U.S. is not where it should be yet.

So U.S. is delivering as we expected lower growth rates if you look at what we are selling to the dealers in the U.S. But if we look at the underlying growth, if we look at the market sales growth, it is where it should be. So we feel quite confident about that, but it is the U.S.

And you are right that U.K. is off to a stronger start than what we had expected. We are very happy to see how U.K. is doing, because U.K. is now in a situation where we see nice growth in the traditional business but we also see nice growth in Charter, and even to an extent where we can see that we are winning customers back. So we're very happy with that.

Ian Douglas-Pennant: OK. Just if I could follow up on that, and that was actually going to be my second question anyway, could you just go into a little bit more detail on what you're seeing in the U.S. market? Because it seems -- I'm just a bit confused by the message on distributors here.

It seems like on the one hand, the Ostomy business is going really well. But then at the same time you're talking about the weakness in Continence Care business.

Obviously the overall developed markets numbers look very weak, especially considering the very easy comp you had last year. Maybe you can just go into a little bit more detail on what you are seeing there. Thank you.

Lars Rasmussen: Yes, I think that you can actually see both the Continece Care low growth rates and the U.S. performance, you can see that in the sort of under the same umbrella because in the U.S., we have had lower sales through distributors, lower sales out Coloplast than what we had last year.

As we also said at the first quarter conference call, we are in a situation where we have changed the contracts with the distributors. That also means that if they have any excess stock, they will reduce that now. So it seems as if there had been some stock inside of catheters, and that's why we are selling less out of Coloplast for catheters this quarter.

I mentioned the Continece Care growth rates. There are two explanations to that. One is the reduction of stocks in the U.K. -- or U.S., sorry; and then of course the fact that we have a very large order in Saudi Arabia last year, (or seen in) Saudi Arabia last year that we are not delivering on this year. We won it again, but it doesn't come in as growth.

So that also talks to the other question that you had: What is it that impacted our growth rate in emerging markets in the first quarter? That's among other things, the Saudi Arabia tender that we did win again, but it doesn't come in as incremental sales because we also had it last year, where it came in without any history pre- to that.

Ian Douglas-Pennant: OK, that's great. I want to ask about the U.K. as well, but I'll jump back in the queue. Thank you.

Lars Rasmussen: All right.

Operator: Thank you very much. And your next question comes from the line of Michael Jungling from Morgan Stanley. Your line is now opened.

Michael Jungling: Thank you very much, and I have three questions. Firstly on organic growth momentum, if I look at your growth on a comp-adjusted basis, there is weakness across the board, either by division or by geographic markets. Is there something more broadly challenging than perhaps just the United States? Because if you slice it in different ways there seems to be an overall slowdown in the Coloplast growth rates.

Secondly, when it comes to net financial,, could you provide some guidance for the full year, especially after the fairly weak Q1 net financial charge?

Then in relation to the European market, can you provide a bit more color what you mean by the more competitive environment in Continenence? Is this very much driven perhaps by Hollister and VaPro? Is it pricing? Is it more volume?

Some more color I think would be useful. Thank you.

Lars Rasmussen: All right. On the geographical side, I think that if you take other markets, it's primarily U.S. that we see a lower growth than we saw the year before. I think that the explanations for that were what I talked about before, and also what we explained when we started this fiscal year, that we think that we'll have a back-end-loaded fiscal year because we changed the contracts in the U.S. Therefore if there is any excess stock, it will be consumed during the first half of this fiscal year and, therefore, we expect higher growth in the second half than we had in the first half.

It is correct that we did not have a very, very strong growth in emerging markets this quarter. One of the reasons was, for example, the Saudi Arabia tender. The growth in China was still high; it was just about -- just below 30 percent, so actually you could say that that's a little lower than what it used to be, but it's still actually very nice growth.

And for Europe, some call us we have 5 percent growth, some call us 6 percent growth. It's hard for me to say what is it that gives us 5 percent or 6 percent. But 5 percent growth is more or less doubled compared to the market growth, and that's not -- that's more or less in line with what we expected.

When we talk about the weaker growth on Continenence Care, well, we are very much impacted by the U.S. situation. That's the prime thing about it.

Then there is one place where we feel that there is pressure from VaPro, and that would be in Germany on the male segments. But that would be it.

Michael Jungling: And please, on the net financial guidance for the year?

Anders Lonning-Skovgaard: Yes, so our guidance on net financial is minus DKK100 million, so we continue to expect to have it in that level. Again, as I said earlier, it's from cash flow hedge losses on the U.S. dollar; it's the devaluation of the Argentinean peso. But we now expect to have a gain on the hedges on the British sterling.

Michael Jungling: OK. Then I guess to get to DKK100 million or so, you need to have a fairly sharp acceleration or so -- a positive acceleration beginning in Q2. Is that a fair assumption?

Anders Lonning-Skovgaard: Yes, that's a fair assumption on the British sterling.

Michael Jungling: OK. That's all. Thank you very much.

Operator: Thank you very much. And your next question comes from the line of Annette Lykke from Handelsbanken. Your line is now opened.

Annette Lykke: Yes; thank you very much. First of all, I'd like to talk a little bit about the marketing. Can you, Lars, put a bit of color on what you are doing differently in the U.S. in terms of marketing?

As I understood, you are beefing up your sales rep or salesforce over there. How much is that, and what effect do you think it will have over time? And would you do even further?

You also say that you are normalizing your activity or marketing activity levels. Can you put a little bit of a light into that?

What more is needed? And are those direct to the consumer campaigns working for you? And are you considering maybe in the incontinence care that you should expand your product portfolio maybe to something like VaPro or similar solutions?

And then I have a question on U.K. Charter afterwards.

Lars Rasmussen: OK. Yes. This was quite specific on the U.S., so let me start by saying that, as I said before, if we're looking at the underlying growth in the U.S. it's actually really nice. So in that sense I feel good about that.

But we have increased our sales presence in the U.S. We have increased it inside of Continence Care, so we are covering more accounts than we did before. We have not released how many external resources that we had put in, but it's significant. Of course I also expect that to pay off in the coming years.

We are also in a situation now where we have the Department of Justice behind us. That was completely concluded on December 23 and we already were back to a normal campaign last quarter and we continue that throughout this year. So we are running as fast as we can on campaigns there.

It's correct that we have this year a very important investment in direct-to-consumer. Let me just reiterate: It's not because we want to move away from covering nurses in any market at all. This is a supplement, where we also want to be able to cover the community part of the market.

We are satisfied with what we see. It does add in a meaningful way to the growth rates in Coloplast.

And as you may have noticed we are growing more than the market. So it takes many things. It's not just the products; it's also how we market ourselves.

So we continue to invest into that. Where we are most advanced are also in the U.S., because the market in the U.S. is more used to this kind of marketing through the patient referral programs, for example, that have been used in hospital settings for many years now. So it's an accepted kind of marketing that is actually promoted by the nurses in the hospital.

So therefore we're just adding to that, and that was actually something that we missed in the past. So there you can say that we have been in a catch-up situation.

Annette Lykke: Have you seen in this quarter any changes in -- as I understand, you are losing patients from communities -- Charter patients to your overall in market share. So you're losing patients down that road, to some extent. Is that changing?

Lars Rasmussen: I think you're getting into an area where we start to reveal something that we haven't revealed before. So what I can say is that we are closing the gap between our hospital market share and our community market share. Our hospital market share is still higher than our community market share is, and this program is the bridging between those.

Annette Lykke: I'll jump back in the queue. Thank you.

Operator: Thank you very much. And your next question comes from the line of Chris Cooper from Jefferies. Your line is now opened.

Chris Cooper: Hi, there. Thanks for taking my questions. Just a couple of quick ones, please. Firstly, on the U.S. Continnence, I know you've touched upon it briefly with the major distributor and the buying patterns. Potentially you could just tell me a bit more about the proportion of the sales mix that these guys are responsible for.

Secondly, on the MDL I know you can't say too much. But could you just, first of all, just confirm that it was DKK491 million that was the cash amount paid out in settlements in the first quarter, and also maybe just some sense of how fast through the 200 cases that went to discovery from September we are.

Lars Rasmussen: Yes. The 200 cases that went to discovery, that was Judge Goodwin's order that they should go and start discovery. What was then the follow-up on that was that we settled a large amount of cases, and therefore he was actually OK that we stayed on that.

So that means that we just run those 200 cases at a minimum level right now, because there's a very high likelihood that we settle. So that case, the 200 cases are not off the table, but they're running, you could say, at a low-cost level right now, most of them.

On -- I'm sorry, the MDL question that you had, the 491: What was that?

Chris Cooper: Yes, sorry. I just wanted to confirm that it was -- I've interpreted your release correctly. It's DKK491 million cash payment in Q1 for the settlements of the MDL?

Lars Rasmussen: I think I might need some help from Anders to take that question, because I'm not -- I can't find that line while I'm speaking to you.

Anders Lonning-Skovgaard: Yes. We have increased our restricted cash with amount in that level. So that's what happened in Q1.

Chris Cooper: Got it; OK. And that's taken against a provision that you made last September?

Anders Lonning-Skovgaard: Yes.

Chris Cooper: OK.

Lars Rasmussen: Are you asking about -- the Continenence Care question, are you asking about the split between SelfCath, EasiCath, and SpeediCath? What's your question - - or is it more what distributor they are being sold in?

Chris Cooper: No, sorry, I'm talking more about the major distributor that you've highlighted in the release and the changing buying pattern.

Lars Rasmussen: Oh, OK.

Chris Cooper: I would just like to get a sense of these -- of what proportion is the overall U.S. sales.

Lars Rasmussen: Yes, it's a part which is big enough to really impact our sales. So sorry; it is a very significant part of our sales in the U.S. that goes through that distributor.

Chris Cooper: Are we talking more than a third, more than a half?

Lars Rasmussen: No, I would rather not go there. But since it's something that can really impact our sales, since we talk about it in this sense, and we will actually feel it also in this quarter, then of course it is enough that it's meaningful.

Chris Cooper: OK, great; thanks. Just one last question, please, just quickly on Charter. The use of the word satisfactory is in there a couple of times. I was wondering if you could just put a bit more meat around the bone of the word satisfactory, please?

How might that (multiple speakers) that context, and how might that business shape up for the rest of the year?

Lars Rasmussen: It means that we are back to the growth rates that we had before we went into problems with Charter. It also means that we are winning back patients from other homecare companies.

So, I'm actually positively surprised to see that we are already in that position. We thought that we would actually be at the end of the current quarter until we are that situation.

Chris Cooper: So in absolute terms, the growth rates are back to where they were before the disruption?

Lars Rasmussen: Yes.

Chris Cooper: OK. So we are lapping now the anniversary of the disruption in the first place.

Lars Rasmussen: But it's -- we are very, very to see what is going on. We think that basically at this point in time we are in a situation where we see that we have very strong process to run Charter Healthcare, that we have a very well-trained staff there, and that we have answer times that are some of the best you can find, whether you are a private patient or whether you are a nurse that calls in. So we had given some consumer promises there and we are fully living up to them.

Chris Cooper: Great. Thanks for your help.

Operator: Thank you very much. And your next question comes from the line of Romain Zana from Exane BNP Paribas. Your line is now opened.

Romain Zana: Yes, good afternoon; thanks for taking my questions. I've got two left actually.
Can you hear me well?

Lars Rasmussen: Yes.

Romain Zana: Just first on the gross margin evolution, should we expect a net positive impact of the product mix on the full year? So that's my first question.

The second one is more a housekeeping regarding the tax rate. It was actually much lower than last year, and if you can guide us for our assumption for the full year.

Anders Lonning-Skovgaard: If we should take the gross margin, so in Q1 our gross margin is on level with last year. We are working on moving production lines to Hungary. Right now we are working on more than 15 production lines that we are moving to Hungary, and we have already started also production of SenSura new Mio in Hungary.

But the transfer will continue throughout the year, and that is impacting the gross margin. But over time it will start to improve our gross margin.

Romain Zana: Basically not for this year, but maybe rather for next year?

Anders Lonning-Skovgaard: We're not guiding specifically on our gross margin. But over time we expect that also the gross margin will contribute to our EBIT margin expansion.

Romain Zana: Guiding the tax rate?

Anders Lonning-Skovgaard: Again?

Lars Rasmussen: Tax rate.

Anders Lonning-Skovgaard: Oh, the tax rate? The tax rate, our guidance is 23 percent, and there are no changes to that. Yes; our tax rate guidance is following the corporate Danish tax rate and will probably be in the same level next year.

Romain Zana: OK, thank you.

Operator: Thank you very much. And your next question comes from the line of Martin Parkhoi from Danske Bank. Your line is now opened.

Martin Parkhoi: Yes, good morning. I have three questions. Firstly was back to U.K., because it now seems like it's going much, much better. And before you went into all these problems, you had started to use these additional sales initiatives in U.K.; I think you had made the first of three waves.

I think that you said to me at least once that when you were 100 percent sure you were over these problems you will maybe take over and go into second wave. So should we expect you to start to also put even more effort into U.K. now? That was the first question.

Then on emerging markets, at the Capital Markets Day back in June 2014 you guided for these 25 percent growth. That was one of the things you have included in your long-term targets. If you should take a fresh look at this now, would we still end at the 25 percent?

And will you give a us a time horizon for that on your long-term targets, on the 7 percent to 10 percent? Are you still assuming that you can deliver 25 percent in the emerging markets, in your current long-term target period?

Then a final question which may be a little bit a soft one. It's on the GPO contracts. We have the two largest ones getting renegotiated this year, and we also have a third one. How disappointed will you be if end of this year Coloplast will still not be on the list with the Ostomy products on these GPOs?

Lars Rasmussen: Yes. If our U.K. countryman is now listening into this meeting, he will then already here get an answer to his request for the second wave, so that's not really good. Of course, the moment that we see that what we have in the U.K. is stable, we will also invest further in the U.K. because that is one of the big opportunities that we have in Europe and it is the biggest ostomy market in Europe. So definitely yes; and we are very happy with what we see, so that one I would put a checkmark on.

Emerging markets, plus 25 percent. It's just difficult right now. When we discussed that, I think that we had almost open gates on both Russia, Brazil, and China; and out of those you could say that they are all working to some extent.

But China is the one that is in the best shape and is actually, I think in good shape. Brazil over the last 18 months has slowed down significantly due to oil price and also due to the other raw materials that is financing the country. And Russia is a -- that's a story of its own.

So right now it's hard to see that we do 25 percent up, I have to admit. But yet we are doing quite well. Last quarter we held more than 20 percent; this quarter 16 percent. I think that we can be thereabouts.

But to promise 25 percent? No, I don't think that's realistic. I'll be happy if we do, but at this point in time, I don't think so.

On the GPO contracts, well, it's really an interesting topic because, as you know, we are in innovation at this advanced technology contract, which means that we are allowed to sell all of our new Ostomy products and the hospitals call it by innovation. So in that sense we already have access.

But that one is one of the ones that are being renegotiated this year. For those of you who don't know it, the GPO contracts are running for four years. They are dual-source contracts; that means that right now it's Hollister and ConvaTec that have them.

You can only -- the member hospitals can only buy 20 percent of the volume outside of the GPO contract. That means that there is a limit to how much you can sell to a hospital if you're not inside of the GPO contract.

So longer term, we cannot become the Company we want to become in the U.S. unless we are at the GPO contracts. We would love to get there now. I don't know; if we get there we can still survive some years without being there, but at some point in time we need to be there. We take our best shot to get onboard, of course.

Martin Parkhoi: Thank you very much.

Operator: Thank you very much. And your next question comes from the line of Niels Leth from Carnegie Bank. Your line is now opened.

Niels Leth: Good afternoon. My first question would be around the change of distributor contracts in the U.S. Could you talk about which type of distributors that still needs to be converted here in the next quarter?

Secondly, could you also discuss whether this change in contracts in the U.S. has caused any loss of customers over there?

Thirdly, just a question on the –

Lars Rasmussen: I'm sorry. Could you repeat the second question?

Niels Leth: Yes, could you talk about whether this change of contracts in the U.S. have caused any customer losses in the U.S.?

Then just thirdly on the competitive situation in Germany, could you elaborate on what actually causes this increased competitive situation in Germany?

Thank you.

Lars Rasmussen: Yes, OK. Well, the distributor contract was actually changed in the middle of last year -- well, a bit over the middle of last year. The nature of the change basically is that, of course, big customers always negotiate a rebate.

And we give a rebate because -- our bonus, it's the same thing. We give it because we get information back. So in this case we get information back on what is the sales out into the market.

We get it with a delay, but we know what they are selling in the market. So that's the one thing that we get.

And then of course there's the volume commitment. Historically we basically had a contract where we paid the rebate or the bonus based on what they

bought from us. What it was changed to was that they get the bonus based on what they sell in the markets.

We did this to avoid that we had these big swings in what was sold in one quarter over the next quarter, because our consumption in the market is pretty stable, so there was no need to have these big swings. But the swings were sort of triggered by if, for example, a distributor was not really having the full volume that they needed to have in order to get the rebate, then they could buy a little bit more. And we would then consequently sell a little bit less in the next quarter, and thereby we would get these swings.

So that is what we are evening out now. But because of that, if there is any excess stocks, there is no incentive for the companies to keep them onboard; therefore it will be consumed here.

And I don't -- it could be distributors like (cath) and health at home or the like. We don't expect that we'll get any loss of customers because it doesn't have any consequence in that sense.

It's just a change of contract. Does that answer your question?

Niels Leth: Yes, that's fine.

Lars Rasmussen: Then the competitive situation in Germany, basically what we see is that there has been for a long time a lot of competitive actions in the homecare segment. There is a limit to how much -- how aggressive we are in that segment in Germany because it will not -- like in the U.K. have a situation where all competitors also have a homecare channel. That's not the case there.

We actually also have a large number of customers that are homecare companies. So in that sense we need to be careful, because we don't want to compete with our own customers.

That means that sometimes we lose out on a contract in the homecare part in Germany, but then we made it on the other part. So if we look at it all in all, we actually still win market share in Germany. So it's got a situation where we don't win market shares.

Niels Leth: OK, thank you.

Operator: Thank you very much. And your next question comes from the line of Scott Bardo from Berenberg. Your line is now opened.

Scott Bardo: Yes, thanks very much for taking my questions. Just first question just relates to the U.S. market. I think we've spoken quite a lot about stocking patterns here in the first quarter.

I just wondered if you could comment a little bit as to how you see this net stocking effect throughout the course of the year. Do you expect it to be broadly aligned with the underlying end-market growth?

Or I think, as you highlighted some strong performance in the second half of the year, could you actually be seeing some net stocking benefit here as a result of all these changes? Perhaps if you can just comment a little bit there so we can get a better feel for underlying performance.

Also like to just talk a little bit about recent industry consolidation. I understand that a pretty big marketing partner for you has been Liberator Medical in the U.S., which has now, I think, been acquired by one of your competitors in the first quarter. Similarly, I think one of your urology players or one of your urology competitors has been acquired by Boston. So just wondering if you had any feelings about how that could impact you or what you are hearing on the ground would be helpful for the U.S.

I have a follow-up question actually for a different market region; but perhaps if you could answer those first, I'd appreciate it. Thanks.

Lars Rasmussen: As much as I would love to talk about it, it's actually hard to put some light on the stock effect in the U.S. because -- the reason why we use the language that we do is we do not have insight to what kind of stock levels our distributors have. Therefore when you change the contract, there is a component there which is unknown to us; and therefore we take a big interest in understanding what kind of sales growth do we see in market sales. That's really what we're looking at.

If we look at that scenario, I expect this year to have a stronger growth than we had last year. That is as close as I can get to it. I hope that makes it at least

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Scott Bardo: Sorry, just –

Lars Rasmussen: .. just a little bit.

Scott Bardo: Thanks, just to understand, there's a lot of swings here, and obviously a negative one. But will there be a net stocking benefit baked within your guidance, or not? I'm sorry, that I'm not clear about.

Lars Rasmussen: I'm not sure I understand what a net stocking benefit is.

Scott Bardo: You've talked about an acceleration in the second half of the year. I just wondered whether you expect positive stocking effects to contribute there or not, reversing the negatives we've seen.

Lars Rasmussen: No, actually, the whole reason why we made this contract was to try to avoid the swings that we see from positive and negative stock movements. I don't know, of course, if this, in a sense, that they destock too much and therefore have to restock some.

That's why what I'm saying is that we actually have visibility into what is the in-market sales in the U.S. We just have it with a delay. And if we look at those numbers, I feel comfortable.

Scott Bardo: Understood. Thank you. So if you wouldn't mind casting an eye on this Liberator Medical and AMS consolidation.

Lars Rasmussen: Yes, that's -- it's very hard to be positive about the fact that Boston has been acquired or Boston have acquired AMS, for example. Because in a sense, when AMS was with Endo for a very long time it was up for sale -- or it was up for sale, and therefore -- I mean, that's never a good situation. So I expect that they are now in an environment where it's more stable and I only think that will make them more competitive. But so far we are actually doing quite well.

And Liberator, as you point out, has been one of our customers in IC in the U.S., and they had been acquired by Bard. What does that mean? Does that mean that Bard tries to fill in the whole portfolio there? I guess they have bought it because they want to utilize that.

But it's also a business, and it needs to run as a business. So let's see what kind of impact that's going to have going forward.

As I mentioned before, we have employed quite a significant number of salespeople in the IC field in the U.S., as we are stepping up our activities there. So that we have both a clinical side to our sales and we also sort of -- and that is to back up the direct-to-consumer activities that we're doing on IC to convert the market. So there's nothing here that is in any ways holding us back from putting full pressure on converting the markets.

Scott Bardo: Thank you very much. Just the second question then, and it relates a little bit to the previous question about emerging market growth. I think it sounds like there's some pretty encouraging signs in terms of Ostomy development in China. But you are cautioning -- I beg your pardon; I may have got that the other way around -- in catheter development in China, but in Ostomy a slowing trend there, which seems to be going a little bit against some of the investments you made there.

Perhaps can you just talk a little bit about that? Is that a one-off, or is that some sort of signal that life could be getting a bit tougher in that environment in Ostomy? Thank you.

Lars Rasmussen: Are you talking Ostomy China?

Scott Bardo: Yes.

Lars Rasmussen: Yes, but I think that it's important to understand that for China we have two big investments going. We have one in Wound Care and we have one in Ostomy Care.

The one in Wound Care is doing a little bit better than the one in Ostomy Care right now. But it's not -- it's been hardly a situation where we think that we are facing problems or anything else.

Scott Bardo: Understood. Then just lastly on -- I think at the turn of the year, the Group obviously outlined 7 percent, 8 percent top-line growth. I think you were good enough to give us some sense of regional perspective there, suggesting you would have similar 5 percent-ish organic growth in Europe; similar if not slightly improved growth in developed markets, as I understand, around 6 percent; and then some similar 21 percent or so growth rates in emerging markets.

But if I'm to understand you on this messaging that you're perhaps a little bit more mindful of the macroeconomic environment in emerging markets that might be a little bit lower. Please correct me if I'm misinterpreting this. But are you expecting to then catch up in some of these other areas which you thought would be broadly similar growth at the start of the year?

Lars Rasmussen: We expect that we will have a stronger growth in the second half in the U.S. That's the main driver for this.

And I also think that what we see right now in emerging markets, with 16 percent, that's on the low side.

Scott Bardo: OK, understood. Thanks, Lars.

Operator: Thank you very much. And your next question comes from the line of Alex Kleban from Barclays. Your line is now opened.

Alex Kleban: Yes, hi, can you hear me OK?

Lars Rasmussen: Yes.

Alex Kleban: OK, hi. Great, thanks. A lot of questions already asked, but just one I wanted to follow-up on: the FX and the hedging. You say you stick to the DKK100 million this year, but normally you get the offsets on of a four- to five-quarter

lag. So do we have an offset coming in Q1 of the next fiscal year that would absorb some of the hit that we saw this quarter?

Anders Lonning-Skovgaard: As I said earlier, we are expecting to gain on our British sterling from Q2 and onwards, and that will also continue into next year. That's at least the expectations right now.

Alex Kleban: OK. So some of that change in guidance, the financial, the currency impact is absorbed a bit by the Q1 next year as it rolls over?

Anders Lonning-Skovgaard: No. Our full-year guidance on net financials for this financial year, that's minus DKK100 million, and after Q1 we had a minus of DKK123 million. So we expect to gain some on our sterling hedge the rest of this year, and that will most likely also continue into Q1 2016/2017.

Alex Kleban: OK. Yes, that's what I was after. Then there's a DKK43 million net exchange adjustment. I guess, is that the write-down? The devaluation impact?

Anders Lonning-Skovgaard: Yes, that's primarily the devaluation of the Argentinian peso.

Alex Kleban: And that does not come back, I guess? That's a goner?

Anders Lonning-Skovgaard: No, that's something that was included in Q1.

Alex Kleban: OK. So we never get -- there is no offset on a hedge of anything coming in the future.

Anders Lonning-Skovgaard: No. That was a one-timer.

Alex Kleban: OK, good, good. OK, that's clear. Second question was just on Urology, and I think you covered this a bit already with the AMS part. But if we look into last year, especially the men's health side had weakened in Urology. There were just various issues, and some of it seemed to be utilization driven.

It just seems as if that's had a pretty strong quarter and utilization is back up. Is that a fair statement and that we've reached a more stabilized market environment in there?

Lars Rasmussen: No, that's too early to say. As I said -- unfortunately, I said many times when we have the questions on growth rates for this specific area in Urology Care, we have little visibility. We have the explanations on the growth rates that we see from quarter to quarter. Whether it's a bit on the negative side or a bit on the positive side, it's hard for us to be very precise because it's not that visible to us.

So no, I can't say -- unfortunately I can't say that that's the case.

Alex Kleban: OK; that's fair enough. Then you also touched a bit on the direct-to-consumer in the U.S. But just --you've run, I guess, a limited number of ads at this point. I'm just wondering if you could talk about lessons learned in terms of what you are learning about the process and when you get to a point where you'll have enough knowledge to really understand the sensitivity to your investment.

So in terms of for every DKK100 million you put in, or whatever the case may be, what kind of return are you going to expect in terms of growth rate? Can you just talk to all that?

Lars Rasmussen: It's too early to be that specific. We are still in situations where we are gaining knowledge on how we invest in a profitable way in our own campaigns. So far we have better outcomes in campaigns that we do with partners, because the partners always come with much more direct TV exposure experience than we have.

So we are building that experience now, and we have learned a lot over the last six months. But we're not in a place where I could start answering questions to the detailed level that you just laid off here.

Alex Kleban: Oh, no, I mean I think it's fair enough. I guess the question is more: In six months' time, nine months' time do you anticipate getting to that stage where you're going to have really good visibility in terms of what kind of returns you can drive from that investment, versus let's say traditional salesforce (target)?

Lars Rasmussen: At this point in time I can't give you a perspective on that. The only reassurance that I can also give you is that until we have better visibility we are not going to go into – (respond you) on it.

Alex Kleban: Yes, fair enough; fair enough. OK. Thanks a lot. That's it for me. Have a good afternoon. Thanks.

Operator: Thank you very much. And your next question comes from the line of Veronika Dubajova from Goldman Sachs. Your line is now opened.

Alex Kleban: Good afternoon, gentlemen, and thank you for taking my questions. I have three please.

The first one is just I'm wondering, Lars, if you can give us a sense: Relative to where you were a quarter ago, what is your level of confidence in you achieving the 8 percent range of the guidance that you've given? Is it greater, lower, or about the same than where you were a year ago?

It would just be helpful to get your indication on that. Sorry, I meant where it was a quarter ago.

My second question is just on the competition in the U.S. in the catheter space. I think you mentioned, obviously, that the basic uncoated catheters declined in the quarter. I don't think that surprising.

But I am more curious about whether you've seen any impact from the Rochester acquisition at Bard, clearly Bard are starting to make a lot more noise on investor calls about wanting to push harder in the coated market. So if you can comment on that, that would be great.

My last question is related to Scott's question about Liberator, but it's more conceptual in that you've now seen a couple of your competitors effectively vertically integrate and become distributors in the U.S. market. I'm just curious, one, what impact do you think it will have on the market dynamics overall?

And, two, is this something that, now that you're seeing some of your other competitors doing, is it something that you yourself might start considering?
Thank you.

Lars Rasmussen: At this point in time we are not prepared to start to narrow the gap in the 7 percent to 8 percent guidance. So that will unfortunately have to stand as it is, as open as it is right now.

On your questions on what does it really mean that we see the vertical integration of the some of the dealers in the U.S. -- now I'm just speculating, because I don't know and I hadn't really seen it. But since Bard is also a high - - you could say high-quality player, a player where they also come in with good technology to the markets, I would expect that they'll use that channel to drive it, to drive a preference for, I would almost say products that people that deserve to have.

So coated catheters, catheters that are more high end. So in that sense I think that's great.

They are offering different solutions than we are. And if you look at the market as it is right now, it is so underserved with modern technology that I think there is potential space for all of us. So I just see it as a positive.

Would we be interested in moving forward in the value chain by buying distributors, or would we rather continue to do what we do right now and build a digital platform? We would like to stay with where we are right now and go to digital.

We don't see ourselves being a full integrator company in a traditional sense where you have a company that is a -- I mean, where we're all in dealers. That's not how I see us at all.

Alex Kleban: In terms of more competition from Bard following the Rochester deal, now that they've integrated, are you seeing any changes in the competitive dynamics on the Continence side in the U.S.?

Lars Rasmussen: No, we don't see that.

Alex Kleban: OK. OK. Third, Lars, if I can just follow up, my first question was really:
Do you feel more confident or less confident than you did a quarter ago in your ability to achieve the guidance?

Lars Rasmussen: I would like to answer in a different way. I'm very happy with the first quarter, and I'm very happy with it because U.K. is stronger than what we thought a quarter ago, the fact that we can sit here and talk about that we are winning back patients and also in a meaningful way in the U.K.. I had that exact question at the last call and I said, why should people come back just because you have fixed your problems? It actually means that we have better service than some of the other guys out there, and I'm very, very encouraged about that.

Alex Kleban: OK. Thank you very much.

Operator: Thank you very much. And now moving onto follow-up questions. So your first follow-up question comes from the line of Ian Douglas-Pennant. Your line is now opened.

Ian Douglas-Pennant: Thanks very much. I've actually only got one left, which is on the U.K.. Could you comment on your market share in terms of products and how that's developing?

I appreciate you're winning a lot of people back to Charter. But I think one of the key concerns at least we had was that you were losing market share in the product space. Could you comment on that, please?

Lars Rasmussen: Yes -- and no. What we said during last year was that we were actually losing sales in the U.S. because when you lose a patient out of Charter you lose the on-cost or the distribution fee. So we had a growth in our volume last year, which was actually over the market growth, but our value was declining or it was flat because of this loss of the distribution fee.

What we see now is that we -- so we didn't lose market shares during the period where we were stocking, and what we see now is a very clear gain. So that is as far as I can go.

Ian Douglas-Pennant: OK, so you're not going to comment on the actual products themselves, then?

Lars Rasmussen: No, not -- I'm not going to give you clear percentages on what we have on Ostomy Care and Continence Care and so on.

Ian Douglas-Pennant: We'll have to wait another four months then. Thank you.

Lars Rasmussen: I think we're in for the last question now.

Operator: OK. Thank you very much. So your last question, it's a follow-up question and that comes from Scott Bardo. Your line is now opened.

Scott Bardo: Yes, thanks very much, guys. I had just a very quick one for Anders, please. I appreciate you've given some stab at reported progression for the Group for 2016. Just wonder if you can clarify; I'm a little bit confused.

You're suggesting now a 7 percent reported growth on the top line. Do you get a 7 percent reported growth if you get 7 percent underlying or 8 percent underlying, which I think is this little range that you have?

Same question for EBIT margin. Are you expecting a 33 percent reported EBIT margin regardless of whether you get 33 percent underlying or 34 percent underlying?

Just wonder if you could clarify that a little bit? That seems a little confusing.

Anders Lonning-Skovgaard: Hi, Scott. I'm not going more into detail about what are our assumptions behind the 7 percent growth in Danish kroner and the 33 percent EBIT margin in Danish kroner. I will not go further into details about our assumptions there.

Scott Bardo: OK. But historically then, just to understand -- because historically I think you had highlighted whether there was a percentage of tailwind or headwind on currencies, and obviously it will flip back and it's no one's fault. But are there other additional effects on the margin here given the moves in currencies,

particularly in the Danish kroner, such that your underlying progression might start to diverge from your reported progression, on the bottom line at least?

Anders Lonning-Skovgaard: The main reason for the reduced top-line growth in Danish kroner, that is the sterling and also some of the emerging markets' currencies. It's also the main reasons for our EBIT margin guidance of 33 percent in Danish kroner; also because U.K. is one of our most profitable markets. So that's the reason for our 33.0 percent guidance in Danish kroner.

Scott Bardo: OK. Thanks very much, guys.

Lars Rasmussen: All right. That concludes the meeting, and thank you very much for listening in. I'm looking forward to meeting a number of you over the next weeks.

Operator: Thank you very much. That does conclude the conference call for today. Thank you all for participating. You may now disconnect. Speakers, please stay on the line.

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