COLOPLAST

Moderator: Lars Rasmussen
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15:00 BST

Operator: This is conference # 950266.

Ladies and gentlemen, thank you for standing by and welcome to the Coloplast Financial Statement conference call.

At this time, all participants are in a listen only mode. There will be a presentation followed by a question and answer session, at which time, if you wish to ask a question, you will need to press star followed by one on your telephone keypad. I must also advise today's conference is being recorded, Tuesday, May 5, 2015.

And I would now like to pass the conference over to your speaker today, Mr. Lars Rasmussen. Please go ahead, sir.

Lars Rasmussen: Thank you very much. Good afternoon, and welcome to our Q2 2014/2015 conference call.

I'm Lars Rasmussen, CEO of Coloplast, and I'm joined by our CFO, Anders Lonning-Skovgaard, and our investor relations team. Anders and I will begin with a short presentation and then we will open up for questions.

Please turn to slide number 3. Q2 2014/2015 was a very busy quarter for Coloplast. Financially, we delivered a Q2 in accordance with our own expectations, with (8 percent) organic growth and a 33 percent EBIT margin.

Q2 was driven by a good performance in most of our business areas and geographical segments. We saw most of the expected uptick in the US and growth was again double digit.

We are also executing on our plans in the UK, where we have made considerable efforts to fix the situation in Charter Healthcare. Today, we are back to normal on our service levels and delivery times, but we still need the remainder of this fiscal year to get the situation in Charter fully back on track.

During Q2, we made significant changes to our organization with the aim of strengthening execution within our consumer sales channel. We also reorganized our R&D to strengthen the innovation capabilities in the organization and improve ramp-up processes.

Last year, we decided to expand our production capacity and we were very happy to open up for 20,000 new square meters in Nyirbator in mid-April, doubling the capacity at the site. Nyirbator is now able to handle the expected transfer of production from Denmark and France in the coming quarters.

On a less positive note, I should mention that our commercial activities with Devon Medical have been terminated due to problems with product safety with the Extricare products. Coloplast is still committed to negative wound pressure, but we need to take a step back and re-think our efforts within this area.

Today, the Board of Directors approved interim dividends of DKK4.5 per share, amounting to a total of almost DKK1b. For 2014/2015, we continue to expect an organic revenue growth of 8 percent to 9 percent and an EBIT margin of around 34 percent in fixed currencies.

Please turn to slide number 4. Revenues were up by 7 percent organically and 11 percent in Danish kroner and amounted to around DKK6.7b. In ostomy care, organic growth was 6 percent and growth in Danish krone was 8 percent. After the low growth in Q1, the growth in ostomy care improved to 7 percent in Q2.

Growth was driven by our SenSura and Brava portfolio, especially in Southern Europe, France, the Nordics and in the US. SenSura Mio was launched in four new markets in the quarter, totaling launched in 18 markets since the start a little more than a year ago. We had a very successful launch in the UK in the quarter.

We continue to see pricing pressure in the Netherlands, and in Q2 we also saw lower growth – lower sales growth in the German homecare segment. Finally, our SIEWA portfolio growth was driven by China, Mexico and Turkey, which was partly offset by low performance in Russia and Algeria.

In continence care, organic growth was 8 percent and growth in Danish kroner was 13 percent. The SpeediCath ready-to-use intermittent catheters continue to drive growth, and especially the compact version has performed well. In the compact segment we saw strong performance in markets like France, the UK, US and Germany, but also a tender win in Saudi Arabia last quarter contributed to growth.

US saw good performance in all continence care categories after the weak Q1, whereas Algeria contributed negatively to growth in the catheter segment. Performance in our Conveen collecting device portfolio rebounded in Q2, driven by France and China. And finally, the Peristeen sales growth remains satisfactory, especially in France, Germany and Italy.

In urology care, organic growth was 5 percent and growth in Danish kroner was 11 percent. Our endourology business continues its satisfying performance, especially in Europe and Saudi Arabia. Sales of the Titan range of inflatable penile implant devices continued to drive the performance, but we saw unusually low activity for these products in the US in Q2. We continue to experience slow growth within female pelvic health, explained by declining sales of our older Aris sling.

In wound and skin care, organic growth was 9 percent and growth in Danish kroner was 15 percent. Organic growth for wound care in isolation was 12 percent. The growth was driven by our Biatain sales, in particular Biatain Silicone in Europe.

The tender in Saudi Arabia which we won in Q1 also impacted our wound care business positively. And finally, Greece had a very good Q2. Generally, we also continue to see a strong growth contribution from our Chinese wound care business.

The skin care business also returned to growth after a weak Q1, and finally our contract manufacturing of Compeed once again contributed positively to growth. Biatain Silicone has now been launched in all main markets, and this concludes the launch of the current silicone portfolio and we continue to be very satisfied with the uptake in the market.

Turning to our geographical segments, we saw organic growth of 5 percent for the first six months of 2014/2015 in our European markets. The growth was very satisfactory in France, the Nordics and the Southern European region, whereas both the Netherlands and the UK continue to have unsatisfactory growth rates. The price pressure remains in the Netherlands, and the performance in the UK I have already talked about.

Looking at Q2 in isolation, growth was impacted by the above mentioned dynamics, but Germany and Italy balanced growth very satisfactory – with very satisfactory quarters, especially in ostomy care.

Organic revenue growth in other developed markets increased to 4 percent for the first half of the fiscal year. As we expected, the distributor buying patterns within one of our largest US customers normalized in Q2 and improved the growth rate in the US. We did expect full recovery in Q2, but it looks as if we will see a positive effect in Q3 as well.

Our growth rates in Canada, Japan and Australia were all satisfactory. The biggest setback in the region was the situation in urology in the US, which I mentioned earlier.

Finally, revenue in emerging markets grew organically by 20 percent in the first six months of 2014/2015. The growth was driven by China, Saudi Arabia, Argentina and Greece, whereas Russia and Algeria impacted the growth rates negatively. We continue to see high growth rates in China, and our investments in expanding the commercial organization are developing according to plan. Both Saudi Arabia and Argentina are delivering on tender wins from Q1, whereas the situation in Russia remains depressed.

Last year we decided to change distributor in Algeria, which led to a DKK20m stock building with that distributor. This quarter, we had a further minor negative impact as the remaining stock from the previous distributor was returned to Coloplast.

Please turn to slide number 5, and I will now hand you over to Anders.

Anders Lonning-Skovgaard: Thank you, Lars. Good afternoon, everybody. Let's take a look at the remaining financials.

Gross profit was up by 11 percent to DKK4.6b. This equals a gross margin of 69 percent, on par with last year. The improvement continues to be driven by higher production efficiency at our volume sites.

We continue to see a negative impact from the launch of new products, where the production economy is not yet fully optimized. The gross profit was also impacted by increasing depreciation levels, associated with higher CapEx levels. Finally, we saw implementation cost in relation to the expansion of our Nyirbator facility.

The distribution to sales ratio came in at 29 percent, which is at the same level as last year. The ratio continued to be impacted by incremental sales investments in China, emerging markets, US and the UK of around DKK100m. In Q2, we also increased our expenses for the ongoing 522 Post-market Surveillance studies which we are conducting on parts of our female pelvic health product portfolio.

The admin to sales ratio came in at 4 percent of sales, up DKK29m in Danish kroner, compared with last year. In Q2 last year we reversed a provision of DKK20m, mainly related to bad debt in Spain. Also, Q2 this year we saw higher legal costs, partly due to the Department of Justice subpoena investigation in the US, which has been ongoing for some time. As for the subpoena, we expect to hear from Department of Justice before summer regarding their findings.

The R&D to sales ratio came in at 3 percent of sales, on par with last year's average. The absolute increase in the R&D spend is related to higher general activity levels compared to the same period last year.

All in all, this results in an EBIT margin of 33 percent, in line with the same period last year.

Operating cash flow amounted to DKK863m, which is slightly lower than the same period last year. We did see a positive impact from higher absolute earnings and the remaining insurance payment of DKK150m, but this could not offset a higher voluntary on account tax payment and cash settlements on currency hedging activities. We continue to deposit on the escrows used for mass settlements and have started to transfer cash from escrows to finalized settlements.

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 Nyirbator in Hungary. CapEx increased to DKK325m, up 48 percent compared to last year.

Please turn to slide number 6. For 2014/2015, we continue to expect revenues to grow between 8 percent and 9 percent organically, but now we expect 13 percent to 14 percent in Danish kroner due to the changes in US dollar and British pound exchange rates against Danish krone.

As mentioned in Q1, we expect to absorb the low Q1 last year throughout the traditionally higher growth in the second half of the financial year, which is also backed by gradually higher growth contribution from new product launches and impact from sales investments. We also expect the situation in Charter Healthcare to contribute with performance improvements as measures taking start to – as measures taken are starting to take effect.

We continue to expect negative price pressure of up to 1 percentage point on our topline, and this is reflected in our guidance. The negative pricing pressure is especially driven by Holland. For 2014/2015, we still expect an

EBIT margin of around 34 percent in both fixed currencies and in Danish kroner.

The main contributions to the guidance are continuation of last year's efficiency gains in global operations and scale benefits in our administration. This is offset by higher unit costs associated with higher sales from capacity ramp-up of new products and higher depreciations.

The guidance continues to include investments in sales enhancing initiatives which are expected to be in the range of DKK150m to DKK200m. The guidance on the EBIT margin does not include any effect from the Department of Justice subpoena or any impact from the termination of the commercial agreement with Devon Medical.

We currently expect our net financials to end the fiscal year at around minus DKK300m, impacted primarily by cash flow hedge losses on especially British pounds and US dollar.

Our CapEx guidance for 2014/2015 remains unchanged at around DKK650m and includes investments in more capacity for new products like SenSura Mio, Biatain Silicone, Compact Eve and investments in the expansion of our Nyirbator site.

Finally, our effective tax rate is still expected to end around 24 percent.

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

Operator: Thank you. Participants, as a reminder, if you do wish to ask a question, please press star followed by one on your telephone keypad and wait for your name to be announced. If you wish to cancel that request, please press the hash key. So once again, participants, that will be star followed by one for question.

The first question today comes from the line of Alex Kleban from Barclays. Your line is open.

Alex Kleban: Yes. Hi. Thanks. So, three questions. First off, for wound care, can you call out the impact on the Algeria inventory and just give a rough estimate of where wound care would have been without that item?

And then second on that, clearly you've gained market share again in the quarter. Do you have a sense of who you're actually taking market share from, because we saw Smith & Nephew also taking some share in the quarter, so just to get some clarity on that? And then I'll do two more but I'll do them one at a time, if that's OK.

Lars Rasmussen: I don't think that we can enlighten you further on the Algeria tender impact on wound care, but I would say that I expect it to be rather limited.

And it seems as if this is a quarter where everybody who is playing in the wound care field are getting good growth, so I can't tell you where we are taking market shares from. But I can tell you that we see that Brazil is back.

We talked about Brazil last quarter, that they were holding back because of the changes to government. And as we also explained, we expected that to pick up this quarter, so we see a picking up there. So I actually would expect that that is kind of a one-off that you see that you are coming back. So, compared to last quarter, that is something that we definitely feel.

And then I also think that we have strong growth in some markets in Europe, but we have in particular strong growth in China, and there I think that we are building the market. So I can't help you with the other guys. You'll have to ask them. But from our point of view, it's a pretty broad-based pickup that we see across many markets.

Alex Kleban: OK, so kind of more geographic mix driven, then, than market share driven, if that makes sense. OK. On Devon, so this one, do we have any product liability risk that we need to worry about on this one, or is this really just a situation of initial pilot, not what you expected particularly from the safety side and then you decided to recall it?

Lars Rasmussen: That's hard for me to comment on. We have had costs on running this pilot. We are quite disappointed that when we point to safety issues with the product that the supplier do not wish to help out on that. So there are some – there is a legal side to this which we'll have to see how that comes out.

Alex Kleban: OK. And then going forward, you said you'll reassess the options, but does that mean – do you have other partners lined up potentially in a pipeline, or do you have to internalize this going forward and maybe take a few more years?

Lars Rasmussen: We will have to find another partner, and I think that's as much as we can comment on this at this point in time. We remain committed to this part of the wound care market and we want to participate in that. But as we speak, we don't have a contract with another supplier.

Alex Kleban: OK. And last one, I know it's kind of become five questions, but just quickly on the consumer marketing side, and I saw the personnel change there, can you just highlight which components of that you're behind schedule on or just why have you felt you needed to make that change now rather than six months from now or maybe even earlier?

Lars Rasmussen: On the consumer side, it's – well, I'd like to say that the first part of it is this part of our business is now sizeable enough that we needed to become a separate unit. We want to be able to set targets for that unit, both on topline and on the earnings, and we don't want to hide if there is anything inside of the, you could say, the historic business, the professional business.

So what we do now is that we are making two additional businesses. One is professional, taking care of doctors and nurses and responsible for NPD and so on, so we have very clear targets for that one. And then we have this part of the business which is reaching out to consumers and where we set specific targets on topline and bottom line for that also. So we see that as we are becoming more offensive in that part of the business, because we see that it works.

Alex Kleban: And that's an internal person who is going to lead that up, or are you going outside?

Lars Rasmussen: Actually, it's Thomas Bruhn who is heading it up. He has been running this franchise since the beginning, so now he has gotten a more visible position in the organization. And he will actually be at the Capital Market Day in London later this week, so you'll have a chance to meet him and talk to him about what it is that we are building here.

But you should see this move as a wish to commit further to running a consumer channel, and you should also see that it's a simplification. What we have done historically is that we have organized around business areas, so we have organized around ostomy and continence care in the chronic business area. And what we do now is that we are organizing around customers, so a professional segment and a consumer segment.

Alex Kleban: OK. Very clear. Thanks a lot.

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

Ian Douglas-Pennant: Thanks very much. Just one on urology care to start with, a big miss, at least against my numbers there. Can you talk about – a little bit more about what caused that? You seem to have a new product out, from what I can gleam from regulatory filings. So is it related to that, people not buying now because they are going to buy later, or is there some longer-term ramification we should be aware of?

And then in the ostomy market, you began to touch on it but maybe you could talk a little bit more about ConvaTec's price related strategy here, that they still claim to be taking NPD share. At least in the community setting, are you being forced to respond with lower prices, or can we make the read through from your higher inventory and receivables number that you're maybe extending better credit terms or giving inventory on consignment or something to your distributors?

And then maybe you could talk about the potential impact of the DoJ investigation and whether you've changed any of your standard operating practices in light of that. Thanks very much.

Lars Rasmussen: Yes. On the urology side, in a sense, this is named – the problems are named US, right? And it's both the female pelvic health which is not doing that great, because we do grow on the newest version of the slings but we decline further on the old version. And then we have to say that we didn't see it coming that we have weak sales of the penile implants.

So far, what we know is that we have had – there have been fewer surgeries in the quarter that we just came out of, which has been confirmed by the customers that are large customers with us. But we need to dive deeper into this, because we don't fully understand why that is. So they claim it's an overall thing for that quarter, but we need to be more sharp on that.

On the ostomy care side, I think that you may be referring to the US when you talk about the questions that you have there. It's very hard for us to comment on information that ConvaTec come out with. But what I can see, you can look at their growth numbers and you can look at our growth numbers, and I think that's a telling story.

But we also know that so far we are not in the US – if you talk about Europe it's a very different story, but if you talk about US just specifically, we are in one of the GPOs with the latest products that we have due to technicalities, so that we can simply launch the products there because they are better. But we don't have full access to – with all of our products on the ostomy side for any of the GPOs; well, for one of them but for most of the GPOs in the market.

So in that sense, for the NPD numbers really to take off in the US, we need access to the GPOs and they are not up for the next 12 months, so that will take a little bit of time.

Regarding Department of Justice – having said that, by the way, on ostomy care, we are growing quite well in the US with a pretty nice growth and a great new launch which has given us the double-digit growth.

Regarding Department of Justice, they have finished their investigations and we have participated fully in that. And as we said, they are coming back with an answer before summer. That's what we expect. It's hard to comment much more on that one.

Ian Douglas-Pennant: OK. So, sorry, just going back to the price in the market, so can I just confirm, you are still very comfortable with flat pricing or whatever you're seeing in the US; you're not being forced to respond to ConvaTec in the community setting, and also you're not altering your credit terms in any way?

Lars Rasmussen: No, that's not the case. No, I can confirm that what you're saying, that's how it is.

Ian Douglas-Pennant: OK. Perfect. Thanks very much.

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

Michael Jungling: Thank you and good afternoon. Three questions, please. Firstly, on other developed markets, how stable would you describe the United States in the second half post-changes in buying patterns or the volatility that we saw in Q1 and Q2? Or in other words, was this a one-off volatility or is this something that will be reoccurring over the next, call it, two years?

Question number two is on EBIT margin. EBIT margin is flat for the first half, year on year. What will drive the better margin in the second half to get to your 34 percent?

And the third question is also on EBIT margin and that is, when you guide to about 34 percent, I know this is a pedantic question but it's kind of important for a stock trading on a high multiple, does this also include, for instance, let's say 33.5 percent, or are we talking about only very small deviations from 34 percent? Because it seems to me you're on the back foot this time around on margins, compared to the past three or four years where the first-half margins were always very strong. That's all. Thank you.

Lars Rasmussen: Let me start with your first question and then I'll hand you over to Anders for the EBIT questions.

On the US, I think that what we have seen in the first two quarters of this year, I think that we have seen that quite a number of times over the years. The reason why it became so visible in the first quarter was because we had both UK and US, which is our number one and two markets, having zero growth.

We have a few very large customers in the US who are impacting our growth rate in the US when they change their buying patterns. So I think it's there as long as they have an incentive structure which is based on what they are buying, and therefore it's something that had been there to a certain extent and it will be there to a certain extent also.

We don't see an interest in having this, because it's harder to explain it to you guys. And to be quite frank, it's also very inconvenient for the planning purposes inside of the Company, because this means that in some quarters we have a low pull on our factories and in some quarters we actually need to work overtime in order to fill stocks. And it's in a market where the demand side is growing, yes, but it's not growing with big swings, then it's something which is unnecessary.

So we will have to work to sort that out, but I don't think that it's going to go away in the short term. It's something that we have to work with, because it comes down to the incentive structure.

And then I'll hand you over to Anders for the EBIT part. But the only thing that I'd like to say before I do that is that we are very committed to the investments that we do in topline growth, and that you also see on the EBIT side, of course. But Anders will explain that deeper.

Anders Lonning-Skovgaard: Yes. So, in order to deliver the EBIT margin guidance, we expect to improve our sales in the Q3 and Q4, and that will have a scale effect also on our EBIT margin. We also expect to improve our gross margin throughout the year, and that will also have an impact on our EBIT margin. But it is primarily the activities we are doing within sales that will drive increased sales in Q3 and Q4 that will drive scale and that will impact our EBIT. So that's the primary reasons.

Michael Jungling: And when it comes to the margin guidance, does 34 percent, for instance, also include 33.5 percent? Is that something which would be in the range of that 34 percent?

Anders Lonning-Skovgaard: So the range we are looking into when we say around 34 percent is between 33.5 percent to 34.5 percent.

Michael Jungling: OK. And when you gave guidance beginning of this year for the full year, I suspect that – or actually, let me rephrase. Now that you have a first half, would you say that you're more towards the low end of the range or the high end of the range of that 34 percent?

Anders Lonning-Skovgaard: Michael, I cannot comment more on that, whether we are in the high end or in the low end. Our guidance is an EBIT margin of around 34 percent.

Michael Jungling: Great. OK. Thank you. That's very helpful.

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

Veronika Dubajova: Good afternoon, gentlemen, and thank you for taking my questions. I have three, please, if I can. The first one is just on the production transfer, and I was hoping, Lars, maybe you can help us think about, one, the timing. When do you think you will have completed the transfer, and so when might we see some impact on gross margin?

And I think related to that, one, what are going to be the costs of that transfer and, two, once you've completed that transfer, maybe what happens to gross margin after that? That's my question number one.

My question number two is just on the R&D reorganization process. Maybe you can help us think about there, why you've undertaken those actions and what that might mean in terms of, one, your R&D output and, two, costs of R&D.

And my third question is just housekeeping. Was there any impact in the quarter from the divestment in Japan on the organic growth rate, and if so, how big that was? Thank you.

Lars Rasmussen: A good question, when the production transfer is complete, because it depends which one you're talking about. But at this point in time, we have new Mio which is being manufactured in Denmark, we have Biatain Silicone which is being manufactured in Denmark, and we also have some of the new catheter products that are being manufactured here.

So, of course, when they have been transferred in full, that will have an impact on – a positive impact on the gross margin. And by saying that, I also say that for the time being they actually have a negative impact on the gross margin, because we are selling quite well of these products, and they are more expensive, so it's actually very visible in the gross margin that you are seeing now.

I can't give you numbers on what the cost of the transfer is, because it's inside of the guidance that we give to you. But we have a spike, you could say, in this year, because it's an extremely large program that we're rolling out when it comes to the ostomy care products. It's very large volumes that we are selling and it's a number of machines that we have to transfer, and the timing of that, it takes a bit of time. We are at least at the end of the next fiscal year before we are, as you know, to the end of the big part of the transfer. So at this point in time, that's where we are.

On the R&D side, so why do we do that? We have just completed what we call the bigger, bolder, better phase. So you know that we went from launching a lot of smaller products to a setup where we have launched fewer products, but products with much more impact for each launch. We have changed the setup that we had, where we handed over the responsibility for the pipeline to marketing, and you know we have been working extensively with anthropologists, simply to get a much, much better understanding of what does it take to move the needle with the consumers.

So we feel that that part of it is really where it should be. What we are not satisfied with at this point in time, then, is how long time does it take for us to do the ramp-up, to do the moving out of the manufacturing? How long time does it take to get down the learning curve and get the final cost price that we are aiming for? And that is what we are going to work with in the next phase.

And what we have done is that we have kept the responsibility for asking for the pipeline. The responsibility for the value of the pipeline is kept with the commercial organization. But what we have done, then, is that we have transferred R&D into the operations organization, because what is left in R&D now is an organization which is executing on the pipeline specifications that come out of marketing.

And by doing this, we can eliminate a number of double functions. We are putting together, for example, the pilot and the ramp-up facilities and so on. And this is also a way to simply streamline the organization and to up the speed of ramping up manufacturing and of driving down cost prices. So that's why we have done it.

And in this sense, we will have what we call a demand side of the business, which is the sales side, plus the marketing side, specifying what they want from R&D. And then you have a supply side, which is on manufacturing and on the technical part of – or technical aspects of the R&D.

Operator: Your next question comes of the line of Ed Ridley-Day from Bank of America. Your line is open.

Yi-Dan Wang: Thank you very much. I have a few questions. Just a follow-up on the reorganization of the R&D, can you give us some sense of how long you expect this process to take and when we could start to see some of the benefits of this in your financials?

And then secondly, on urology, can you explain why the older female slings are declining at a faster pace versus the growth of the newer ones? I would have expected that the newer ones just substitute the older ones at a similar pace, that you've not had a faster pace, on the assumption that you should be gaining market share.

And then the third question is for wound care. Can you comment on how much of the performance is coming from the back orders for Biatain Silicone when you were unable to supply demand, and what percentage of your business has actually got this product now and how you expect that to change in the rest of the year? Just some sense of how sustainable the growth that we see in wound care can be going forward. Thank you.

Lars Rasmussen:
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Yes. On the R&D side, I think that you should be careful to see that we have a guidance to the market, which is that we want to be able to grow 7 percent to 10 percent and add 50 to 100 basis points to our EBIT every year as one guidance. And then, when we do some changes to the organization, then we need to add some extra guidance to it in order to contain all of the fantastic benefits that come out of that.

I think that what you need to see, that the things that we do to the organization, the products that we're launching, the reorganization that we're doing, the much bigger emphasis on consumer and so on, they are all parts of being able to deliver a growth which is like 40 percent to 100 percent higher than the market's growth is for the Company, and that is to be able year over year to limit it to 100 basis points on the bottom line.

So these are things that we are doing in order to fulfill both of these targets. And I think they are actually quite challenging, because we are growing both the topline and the bottom line from a level where we are market leaders and also the most profitable company.

So I would hesitate to give you an extra guidance on when you will see this kick in, because every year we have to grow more than the market, significantly more than the market, and every year we have to add 50 to 100 basis points to our EBIT. So we simply need to do stuff to the Company in order to do that.

On the urology side, I'm puzzled with the same question as you are on why would one decline faster than the other one is growing. And I don't think that we – with the market share that we are enjoying inside of the female pelvic health area, that we have the necessary visibility to see – to know what's the total number of procedures performed per quarter. So, therefore, it's very hard for me to run these numbers for you.

But I think that there is a logic that people like to step away from older technology and that they like to get into newer technologies which have been approved by FDA recently. So I guess that at some point in time we'll see this equaling out, so that the growth will be higher than the decline of the old products. But I can't help you on that one, unfortunately.

On the back orders of silicone, well, you know silicone is now out in 21 countries. It's not – well, it's been holding us back last year, but it's primarily been holding us back on the number of launches that we have pursued. And actually, if you look at where we get the uptick from, a very large part of the uptick is from countries that are not having silicone. So silicone is primarily helping us to grow in Europe, but the big growth numbers are coming from outside of Europe, where silicone is not launched yet.

Yi-Dan Wang: OK. And if I could just add in one more question for ostomy, given the situation with GPOs, how long can you continue to grow at the pace you're currently growing at in the US before you would really need to solve that GPO problem or make some progress there?

Lars Rasmussen: Yes. It depends on how well accepted the Mio gets and if we can get into – Mio is actually having really an exceptional reception in the US. So I guess that as it is right now, we are getting the new products in on, for example, Novation, because of the technology but not as a full member. And I think that as we are gaining more and more market share in the market, it also becomes more and more natural that of course we need to be on the GPO contracts.

So I don't know, but of course, at some point in time, if we are not on the GPO contracts, it will become a problem to us. It is not at this point in time, due to our market shares, but it will become, of course. You are absolutely right that at some point in time we need the GPOs in order to drive more EBITDA in the markets, but it's not within the next couple of years. But on the other hand, with the growth we have, we'll be there. We will lead that.

Yi-Dan Wang: OK. Great. Thank you.

Operator: Your next question comes of the line of Ed Ridley-Day from Bank of America. Your line is open.

Edward Ridley-Day: Hi. Good afternoon. Thank you. First of all, just a follow-up on Devon Medical, can you give us any color on the impact on revenue on a quarterly basis or on an annual basis? That would be helpful.

And maybe a step back and look at wounds. Obviously, as you said, you need to have a look at what to do in NPWT going forward, but if there's an opportunity to perhaps think about a potentially larger move in wound, still a very fragmented market, where clearly a consolidator would have the benefit of scale, if you could talk to that, that would be helpful.

And then just in terms of the working capital and cash flow, can you give us an idea of how much of the inventory build is related to, as you say, the new factory expansion and the potential transfer of production and how much is really related to just ramp ahead of new launches? Thank you.

Lars Rasmussen: The negative pressure area, you know we only had two pilot markets where we tried it out. So in a sense, if I'm talking to the loss of revenue, that would have to be an opportunity loss that I'm talking about. Because it's very limited what kind of sales we had with these products, because we were basically investigating with them, figuring out if they were working and how well they worked and so on.

And therefore, it's sort of future – it's future sales that we missed out with this one. But yes, we had some numbers on that, but I don't – it's not really relevant, because we never talked about them before and I don't think it makes any sense to start talking about them now.

And I agree with you that there are a number of options that you could consider, and of course we're looking at whatever options that we see in order to be part of this market. But we're also known as a cautious company, as you probably – so I think I can't comment any more on that, but I'll hand you over to Anders for your last question.

Anders Lonning-Skovgaard: Yes. So in terms of the inventories, they have increased due to a couple of factors. So we had lower Q1 sales than expected, so that's one reason. The other reason is also, as Lars mentioned earlier, that we're also preparing for transferring our machine lines both here in Denmark but also in France, so we're also building up inventories in order to do that. And then we have also increased inventories to launch the new products.

Edward Ridley-Day: Sure.

Anders Lonning-Skovgaard: So those are the three main reasons for the higher inventories.

Edward Ridley-Day: And that's helpful, and that's exactly what I meant, exactly. So if we – or if I take one of your other earlier answers, looking at the move in working capital year to date, can you – in terms of our modeling, can you give us some guidance in terms of where you think working capital can be for yearend relative to revenue or indeed, say, by the end of next year, when you have completed the transfer?

Anders Lonning-Skovgaard: So in general, we are not guiding specifically on our working capital, but I expect that our inventories will be on a lower level at the end of the year if our sales are picking up, as we are guiding. So that is my overall expectation.

And the same thing goes for our receivables. We have had a higher growth in the first half within emerging markets, where we have higher payment terms, and therefore we have a negative mix effect on our DSO. And then we expect that also will be – our DSO levels will be reduced in the remaining part of the year.

Edward Ridley-Day: OK. Thank you.

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

Oliver Metzger: Yes. Hi. Thanks for taking my questions. My first one is on your sales guidance in Danish kroner, which you basically have increased for the second time, and your EBIT margin guidance is still stable. And basically, it's only a quick question, you will have some incremental funds generated from the FX tailwind. And the question is do you plan to invest these funds more into sales enhancing strategies?

Also, with the background that you reiterated your guidance on these investments of DKK150m to DKK200m, can you give us more indication where do you plan to spend this additional money?

My second question is on the – is more general on the production capabilities. As you have completed the site expansion in Nyirbator right now, if you continue to grow with rates of 8 percent organically, when do you think you have to expand again your facilities, just because we are running out of capacities?

And finally, one question on Charter Healthcare; so compared to the situation three months ago at the last reporting, would you describe the status quo as in line, below or ahead your expectations?

Lars Rasmussen: Start that one?

Anders Lonning-Skovgaard: Yes. So in terms of our EBIT guidance, so as we have mentioned, our EBIT guidance is around 34 percent. In our EBIT guidance, we have guided that we are continuing our investment program that we initiated three years ago. So we expect still to invest in the level of DKK150m to DKK200m in additional sales activities, and that is primarily going to be in China, in UK, in US, so we'll continue the programs.

So in order to deliver our EBIT guidance, we have after the disappointing Q1 been out and identifying some savings in other parts of the organization. So that's how we have been working in order to deliver the EBIT guidance so far.

Then, Lars, on …

Lars Rasmussen: Yes. Your question is when we are going to come with a new one. That's a good question, because now the – if we are growing in a range of 7 percent to 10 percent per year, then of course that is going to be a volume driven growth. And the volumes are a bit higher than the value that we see, because we have the price pressure. And therefore, I would expect that every two to three years we will have to consider expanding our capacity in some shape or form, because it's actually quite a bit that we are adding to the sales every year. So that's what we would expect.

On Charter Healthcare, as we said, it's much better than it was. We think that our sales levels are back to normal. There are still a number of things that we need to implement, but there are also many things that we have improved a lot on.

And to give you one example, a recent example, then we have just launched a new webpage for Charter Healthcare, where you as a patient with Charter Healthcare can go online and you can see the status of your order, you can see whether the doctor sent the prescription, you can see where the order or where the package is once it's shipped, so in that sense you actually now have more visibility with us than with any other company in the market.

So there are a number of things that are progressing, but we are still not satisfied with where we are. We think that we need the rest of the year in order to have everything cleaned up and be where it should be. So we are still not with the performance in the UK that we are satisfied with.

Oliver Metzger: Just a follow-up, but would you describe status quo as here already in line, above or below your estimate three months ago?

Lars Rasmussen: It's following the plan that we laid out when we saw the problems in the UK. But if you ask me are we at a level where we are satisfied with the performance that we have, then I would say not yet. We need to have the best service in the business, and we are not there yet.

Oliver Metzger: Yes. OK. I'll leave it. Thank you.

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

Scott Bardo: Thanks very much for taking my questions. Yes, just firstly on the wound care business, obviously some great growth coming through from that business, but I just wanted to explore a little bit further how you see that sustainably trending. I know historically one of the reasons for moving into negative pressure wound therapy was to enable you to get into some bigger tender contracts. Obviously, that's taken a bit of a setback today, so do you think that that will impact your wound care growth in the future? Perhaps some comments around that and potentially what you see as the financial impact from the termination of the Devon Medical agreement. That's question one, please.

Secondly, a financial housekeeping question. You mentioned you're investing some DKK150m to DKK200m in sales enhancing initiatives. Do those investments also include some of the mandatory post-surveillance studies that you're having to conduct, as well as some of the compliance and legal costs that you're implementing across the organization, or are those costs over and above those DKK150m to DKK200m? If so, could you please quantify? So they're the first two, please, and I have one follow-up.

Lars Rasmussen: OK. On the wound care side, what is sustainability in your book? Are we talking months or years?

Scott Bardo: Maybe the next few years.

Lars Rasmussen: I don't know how much I'm promising if I say that I think that we have a solid foundation for our growth in wound care. But we are guiding for the total Company for one year at a time, and I would be very – I wouldn't like very much to give you a long-term guidance on wound care. We are building a very solid platform. I can give you the components as I see them.

So we are out of the financial crisis Europe, so – apart from Greece, of course. So, that means that we are no longer seeing negative growth in Europe, which we had for a very long time during the recession, from 2008 and onwards. So there we have a very different picture.

Over the last few years, we have built a very solid base, which we keep investing in, in China and in Brazil, and we get a lot of benefit out of that, but we also invest to have it. So in that sense, we believe that that is sustainable, and we have especially in China a very important market position, I would say. So that gives me the belief that we are building a machine which is a growth machine.

You are absolutely right that if we also were holding the negative pressure portfolio, we would have access to more tenders, and there are a lot of tenders inside of wound care. And that's the whole idea why we wanted to get into negative pressure. So I'm very sorry that we are not in a situation where we could make this cooperation work, but patient safety has to come first.

On the Devon legal side, well, it's very hard for me to say. I'm very disappointed that the moment we point to safety issues and things which are not big things, but things that definitely need to be fixed, that they are backing out. But patient safety comes first.

Maybe you would like to answer the other question on …

Anders Lonning-Skovgaard: Yes. In terms of the financial consequences of the termination, it's still too early to say we know when the whole dispute will be settled what kind of financial consequences it will have for us.

And in connection with the other question around the 522 studies, they are – the costs for those studies are included in the DKK150m to DKK200m, but they're not the legal costs and the other things you mentioned.

Scott Bardo: Thank you. So, sorry, is it possible just to give us a feeling or a flavor for how much of this investment that you make is – are these mandatory studies? Is it a smaller or a significant part of that or …

Anders Lonning-Skovgaard: In the first half, it's in the level of $1m.

Scott Bardo: OK, so it's relatively small. OK. Great. And just the last follow-up, please, just a discussion on – seen a little bit of softness in urology that you mentioned, for the first time in quite a long time, and coinciding around the time that AMS has been acquired by Boston. I think you also reflected in your release today that your German SIEWA homecare operations have seen some slowing in ostomy, arguably at a time that private equity have acquired another competing homecare company. Can you perhaps talk a little bit around whether you see some sort of indirect competitive impacts here, or whether you think it's just company or product specific? Thanks.

Lars Rasmussen: Yes. I would like to have that clarity myself, to be quite honest. We are digging deeper into it to understand the dynamics in the UK, or in the US, and it's – so in that sense, what we have done is that we have reached out to our larger customers, to understand the number of surgeries that they are performing overall, and comparing that to last year. And there is a good correlation between the drop in number of surgeries that they have done compared to what they did in the same period last year.

But we still need to understand why that is, because it doesn't really make a lot of sense to me that that's the case, but that's what the numbers say. So that's where we are. Unfortunately, I can't fill you in further on this.

Scott Bardo: Thank you. If I can be cheeky, maybe just one last question that's popped up in my mind. Depreciation and amortization has started to trend up. I think it reached a relative low of around 3 percent or so in fiscal 2014, compared to the maybe 6 percent ratio that we saw in 2008/2009. Can you give us a flavor for where you see that ratio trending up, given your capital investments, and whether that's enough to trigger you revising your guidance more towards EBITDA rather than EBIT? Thank you.

Anders Lonning-Skovgaard: So, yes, you are correct that the depreciations are increasing, as our CapEx level has been increasing over the last couple of years as we have invested into more capacity for new products and also capacity for existing products and also our investments into the new factory in Hungary. So we will continue to see an increase in our depreciation also going forward. We are guiding our profitability in EBIT terms, and I don't expect to change that over time.

Scott Bardo: OK. Thanks, guys.

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

Lars Rasmussen: OK. But then I would like to say thank you very much for participating. We expect to see many of you in London on Thursday for our 2015 capital market event, so until then.

Operator: That does conclude the conference for today. Thank you for participating. You may now disconnect.

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