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COLO B.CO - Q1 2017 Coloplast A/S Earnings Call

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## CORPORATE PARTICIPANTS

**Lars Rasmussen** *Coloplast A/S - President & CEO*

**Anders Lonning-Skovgaard** *Coloplast A/S - EVP, CFO*

## CONFERENCE CALL PARTICIPANTS

**Veronika Dubajova** *Goldman Sachs - Analyst*

**Chris Cooper** *Jefferies - Analyst*

**Ian Douglas-Pennant** *UBS - Analyst*

**Carsten Madsen** *SEB - Analyst*

**Martin Parkhoi** *Danske Bank - Analyst*

**Scott Bardo** *Berenberg Bank - Analyst*

**Romain Zana** *Exane BNP Paribas - Analyst*

**Ines Silva** *Bank Of America Merrill Lynch - Analyst*

**Gunnar Romer** *Deutsche Bank - Analyst*

**Christian Ryom** *Nordea Markets - Analyst*

**David Adlington** *JP Morgan - Analyst*

## PRESENTATION

### Operator

Good day and welcome to the First Quarter 2016 and 2017 Conference Call. Today's conference is being recorded. At this time, I would like to turn the conference over to Mr. Lars Rasmussen, CEO. Please go ahead, sir.

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### Lars Rasmussen - Coloplast A/S - President & CEO

Thank you. Good afternoon and welcome to our Q1 2016/2017 conference call. My name is Lars Rasmussen, CEO of Coloplast and I'm joined by CFO Anders Lonning-Skovgaard and our Investor Relations team. We'll start with a short presentation by Anders and myself and then we'll open up for questions.

Please turn to slide number 3. Today, Coloplast delivered 6% organic growth which is in line with our expectations. As anticipated the quarter was heavily impacted by our inventory reductions within primarily continence care, but also ostomy care at our largest distributors in the US. The inventory reductions amounted to approximately DKK70 million. I'm pleased to say that the inventory levels are now normalized and going forward, we expect to see our reported sales growth in the US normalized towards the double-digit level that we are seeing in the end market sales. I'm excited about the prospects of the US business. The underlying demand for our products is solid and we have built a strong consumer platform with our Care program and direct-to-consumer initiatives. Within ostomy care, we continue to see growing momentum in the acute channel and in Q1 we secured a number of additional hospital wins predominantly within the Vizient GPO, including, for example, Yale-New Haven.

The acquisition of the US distributor Comfort Medical has now been completed and we see an attractive opportunity to accelerate the ongoing upgrades in the markets towards more advanced hydrophilic catheters. A key pillar in our new strategy is innovation. Across our business areas, we continue to roll out new products this year including SenSura Mio Convex, SpeediCath Flex and Biatain Silicone Sizes & Shapes. In Q1, we also relaunched an upgraded version of our legacy Comfeel Plus portfolio. In the first quarter, an important milestone was reached with the introduction of reimbursement for intermittent catheters in South Korea.



Emerging markets remains a challenging region and in Q1 we saw weaker growth primarily due to weaker -- to the lower tender value in Saudi Arabia this year compared to last year, a weak quarter in Brazil due to funding challenges and continued weaker momentum for our wound care business in China. We expect our wound care performance in China to improve over the course of the year. It is satisfying to see us deliver a 33% EBIT margin in Q1, considering that we have continued focus on our transfer activities and have invested further in the US and wound care. Our organic revenue guidance for 2016/2017 is unchanged with a growth of 7% to 8% whereas our growth in Danish kroner is now expected to be around 7% to 8%. Our EBIT margin guidance in fixed currencies and in Danish kroner is unchanged at 33% to 34% and around 33% respectively.

Please turn to slide number 4. Revenues grew 6% organically and 3% in Danish kroner and amounted to DKK3.8 billion. In ostomy care organic growth was 6% and growth in Danish kroner was 3%. Growth continues to be driven by our SenSura and Brava accessory portfolios.

Our SenSura portfolio saw a satisfactory growth in the UK, Germany and Southern Europe. In particular, SenSura Mio Convex continues to contribute to growth. We look forward to bringing additional capacity on SenSura Mio Convex to the market at the end of March to meet the strong demand. Growth in Q1 was negatively impacted by the anticipated inventory reductions at our largest distributors in the US and a weaker quarter in a number of the emerging markets, including Saudi Arabia and Brazil. In Q4 last year, growth was negatively impacted by back orders on urostomy bags. The back order level normalized in Q1 as expected.

Our Assura/Alterna portfolio growth was driven by satisfactory performance in China, Russia and Spain. In continence care, organic growth was 5% and growth in Danish kroner was 1%. The SpeediCath ready to use intermittent catheters continues to drive growth and especially the compact versions performed well. In the compact segment, we saw strong growth in the US as well as satisfactory growth in the UK, France and Germany. As anticipated, inventory reductions at our largest distributors in the US had a negative impact on growth. In addition, the lower tender value in Saudi Arabia this year compared to last year had a significant negative impact on growth. Our Conveen collecting device portfolio posted a slightly positive growth due to a satisfactory growth in France. Finally, sales growth for our Peristeen products remained satisfactory, especially in the UK, US and France.

SpeediCath Flex has now been launched in 11 markets and the initial feedback is very positive.

In urology care, organic growth was 8% and growth in Danish kroner was 9%. The growth was primarily driven by sales of female pelvic health products where we continue to gain market shares. We also continue to see satisfactory growth in sales of the Titan range of inflatable penile implant devices. Our endourology business a satisfactory growth in Europe. However, overall growth was dampened by weaker emerging markets performance.

In wound and skin care, organic growth was 5% and growth in Danish kroner was 4%. Organic care growth for wound care in isolation was 8%. The growth was driven by Biatain sales, in particular, Biatain Silicone in Europe and Biatain Super in Greece.

In Greece performance was lifted by stock building due to a shift to a new product portfolio as a result of health care reforms. The inventory is expected to be reduced in Q2. As mentioned earlier, Saudi Arabia, China and Brazil, contributed negatively to growth.

Contract manufacturing of Compeed contributed to growth while the skin care business impacted growth in the quarter negatively due to a strong quarter in Q1 last year.

Turning to our geographical segments, we saw organic growth of 6% in Q1 in our European markets. The growth continues to be satisfactory across the portfolio of countries and in particular in the UK, where Charter continued to take market share. The quarter also saw a satisfactory growth in France and Southern Europe. Organic revenue growth in other developed markets was 4% in Q1, as explained earlier. And as expected, inventory reductions at our largest distributors in the US impacted performance negatively. Our growth rates in Canada, Japan and Australia all remained satisfactory.

Revenue in emerging markets grew organically by 7% in Q1. The growth was driven by Greece, Argentina, China and Russia. The lower tender value in Saudi Arabia this year compared to last year had a negative impact on the group sales of approximately DKK30 million. China contributed to



growth due to a satisfactory growth within ostomy care. However the wound care business posted another weak quarter. Finally, Brazil had a weak quarter as a result of municipal elections that caused delays in orders due to party constraints.

With this I'll now give the words to Anders and please turn to slide number 5.

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**Anders Lonning-Skovgaard** - *Coloplast A/S - EVP, CFO*

Thank you, Lars and good afternoon everyone. Gross profit was up by 3% to around DKK2.6 billion. This equals a gross margin of 69% which is on par with last year. We continue to see improvements in production efficiency at our volume sites and in particular a positive impact from the relocation of SenSura Mio and Compeed to Hungary which compensates for the negative gross profit 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 and cost associated with relocation of production to Hungary.

The distribution to sales ratio came in at 28% on par with last year. The ratio was impacted by sales and marketing investments in the US and within wound care. The admin to sales ratio came in at 4% of sales on par with the recent trend. Included in the quarter are DKK7 million in transaction costs related to the acquisition of Comfort Medical. The R&D to sales ratio came in at 4% of sales compared to 3% for the same period last year. The 10% increase in R&D costs reflects a higher general activity level.

Overall, this resulted in an increase in operating profit in fixed currencies of 8% and 3% in actual currencies, corresponding to an EBIT margin of 33% in both fixed and actual currencies. Operating cash flow amounted to DKK254 million compared with DKK629 million last year. The positive impact from higher absolute earnings was offset by payments on escrow accounts to settle mesh claims. In Q1, mesh payments totaled DKK1.2 billion and total mesh payments to-date now amount to DKK3.6 billion. Cash flow from investing activities was impacted by the acquisition of Comfort Medical and capacity expansion in machines for the production of new products at the site and the site expansion in Tatabanya and Hungary.

Investments in intangible assets and property, plant and equipment amounted DKK112 million for the quarter. The sale of bonds provided DKK110 million cash contribution. Adjusted for payments made in connection with the mesh litigation and the acquisition of Comfort Medical, the free cash flow amounted to approximately DKK1.4 billion compared to DKK1.3 billion last year. The latest update on the mesh litigation is the US is that we have now settled more than 95% of the cases against Coloplast. At the end of this financial year, we expect to have paid out DKK5 billion of the total provision of DKK5.25 billion. Finally, the second half of the approved share buyback program of in total DKK1 billion is expected to be initiated in the second quarter.

Please turn to slide 6. Our organic revenue guidance for 2016/2017 is unchanged with a growth of 7% to 8%. Our growth in Danish kroner is now also expected at 7% to 8%. Our guidance assumes stable growth rates in Europe. We also assume higher growth rates in North America this year compared to last year. Finally, we assume that growth in emerging markets will be in line with the level we saw last year which assumes an improved growth outlook for China wound care. We expect a negative price pressure of around minus 1 percentage point on our top line and this is reflected in our guidance. The negative pricing pressure is expected to be driven by reimbursement pressure in France and price reform in Greece.

For 2016/2017, we continue to expect an EBIT margin of 33% to 34% in fixed currencies and around 33% in Danish kroner. Higher growth from our new product launches still means pressure on the gross margin, but we continue to relocate manufacturing out of Denmark to Hungary and we will reduce the number of production workers in Denmark by additional 100 in 2016/2017 as previously communicated. We expect the benefits to be absorbed by the cost of relocation and restructuring cost in 2016/2017. We also expect depreciation to increase at the same level as last year as a consequence of the last couple of years' increasing CapEx.

The change to the top line guidance in Danish kroner is primarily related to the acquisition of Comfort Medical as well as the appreciation of the British pound and US dollar against Danish kroner since our last financial results were published in November. We expect our net financials to end the financial year 2016/2017 at around minus DKK100 million, impacted primarily by cash flow, hedge losses on the US dollar, Brazilian real, Argentinian peso offset by hedging gains on the British pound.



CapEx guidance for 2016/2017 is expected to be around DKK700 million and is driven in particular by investments in more capacity and for new products including SenSura Mio, Biatain Silicone and SpeediCath Flex as well as the Nyirbator expansion, which is expected to be operational during the first half of 2017 and 2018. Finally, our effective tax rate is expected to be around 23%.

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

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## QUESTIONS AND ANSWERS

### Operator

Thank you. (Operator Instruction) Veronika Dubajova, Goldman Sachs.

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### Veronika Dubajova - Goldman Sachs - Analyst

Good afternoon, gentlemen, and thank you for squeezing me in. I have three questions, please. My first one is on the ostomy business. And I am curious, Lars, if you saw any changes in the competitive environment in the market in the first quarter. Looking at the fact that you were supposed to see some rebound from the fourth quarter in your ostomy business, I'm just surprised by the degree of slowdown that you have seen sequentially in the ostomy business. So if you can comment on that or if there is anything else happened in the quarter that would be helpful.

My second question is on emerging markets. And can you give us any sense on what the growth would have been in the business if you stripped out the Saudi tender? And related to that is your expectation that that tender happens at a later point in time in the year or should we be writing that business off now? And my last, very quick question is just on the guidance on that financial items for the full year. Thank you.

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### Lars Rasmussen - Coloplast A/S - President & CEO

Thank you very much, Veronika. I think that -- let me take the emerging markets question first. It's approximately corresponding to around 5% of the growth rate that we are losing because of the DKK30 million that we had in -- at the tender loss in Saudi Arabia. So that's the magnitude. When it comes to ostomy care and the competitive environment, we had a very high growth in the last quarter in ostomy care. However, if we then look at what's the ostomy part of the stock reduction in the US, what's the ostomy part of the tender that I talked about in Saudi Arabia and order weakening in the emerging markets, actually we have more or less the same growth rates in this quarter as we had in the previous quarter, i.e., it's a very strong growth that we are having and as we also say in the presentation we can't wait to bring on more capacity because the demand is really present.

I can't remember your third question. I am sorry.

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### Veronika Dubajova - Goldman Sachs - Analyst

It was for Anders, yes.

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### Anders Lonning-Skovgaard - Coloplast A/S - EVP, CFO

So, you asked about the guidance on our net financials. And we're expecting minus DKK100 million in net financials for the year driven by cash flow hedge losses on the US dollar, the Brazilian real, Argentinean peso, but partly offset by hedging gains on the British pound.



**Veronika Dubajova** - *Goldman Sachs - Analyst*

Fantastic. And if I can follow up quickly on Saudi Arabia, Lars, is your expectation that this tender happens later in the year or was the tender awarded to someone else? If you can just give us some color on that that will be great.

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**Lars Rasmussen** - *Coloplast A/S - President & CEO*

We want to -- but it's just the value of it, which is really, really low and it's been (multiple speakers) that they sort of squeezed it down.

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**Veronika Dubajova** - *Goldman Sachs - Analyst*

Understood. Thank you. Thank you both very much.

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**Operator**

Chris Cooper, Jefferies.

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**Chris Cooper** - *Jefferies - Analyst*

Thanks for taking my questions. Just two please. Firstly, working capital cash, there's a big negative swing. It's mostly around the trade payables. Should we be expecting some kind of normalization through the first half of this year or is this a structural change, I guess, perhaps related to the new distributor contract? Any commentary here would be helpful. We are talking almost DKK1 billion swing. And I'll come back with the second.

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**Anders Lonning-Skovgaard** - *Coloplast A/S - EVP, CFO*

Overall our net working capital for the first quarter is around 25%. And it's very much driven by our inventory levels that have increased in the first quarter as we are preparing for launches for the rest of the year and we have also eliminated, you can see, or resolved that back order situation within the ostomy area. So that's the net working capital situation. What was the other one?

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**Chris Cooper** - *Jefferies - Analyst*

That was the question. I mean, I was referring more to the swing in the payables line. I mean, there is no structural change I'm getting to (multiple speaker) contract.

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**Anders Lonning-Skovgaard** - *Coloplast A/S - EVP, CFO*

So in terms of the accounts payable side, it's more timing from quarter to quarter.

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**Chris Cooper** - *Jefferies - Analyst*

Okay. And so we expect a normalization in the second quarter presumably?

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**Anders Lonning-Skovgaard** - *Coloplast A/S - EVP, CFO*

We're expecting normalization over the coming quarters. So my expectation in terms of net working capital for the year is in the level of 24% as we also had last year.



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**Chris Cooper** - *Jefferies - Analyst*

Second question just on the mesh case (inaudible) greater than 95% settlement rate. It does seem like you're ahead of the competition here slightly. Can you just confirm whether new cases are continuing to come forward or whether indeed there is any reason to suspect that the last 5% could be any different from the last of 5% in terms of risk profile?

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**Lars Rasmussen** - *Coloplast A/S - President & CEO*

It's not -- if your question is if we have sort of pushed the more heavy cases ahead of us, that's not the case. We expect the remaining cases of the long runs to be as the average cases that we have seen. So I think that's the question that you had on that part. Is that correct?

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**Chris Cooper** - *Jefferies - Analyst*

And whether there is any (multiple speakers) forward?

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**Lars Rasmussen** - *Coloplast A/S - President & CEO*

Well, it's a very slow pace, I would say. It is correct that we have had a different way of handling this than many of the other companies that are out there because we have not been in the courtroom, but we have taken the settlement route. So that's why we are at a different point than most of the other companies that are involved in this mesh litigation.

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**Operator**

Ian Douglas-Pennant, UBS.

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**Ian Douglas-Pennant** - *UBS - Analyst*

Most of my questions have already been answered I don't know early in the call. So first on the wound slowdown. You mentioned an emerging market slowdown. Could you go into a little bit more detail there? We've heard from other people that China is still reasonably weak. So is that what you're talking about there or are there other regions that we should think about that are significant as well?

And then on R&D, you had double-digit growth for a few years now. What is the kind of end gain that you're expecting? I mean your original commentary around 3% to 4% of sales at what point would you revise that or you still have [to reiterate that]. Thanks.

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**Lars Rasmussen** - *Coloplast A/S - President & CEO*

Wound care in isolation was 8% growth. So we had a negative growth in skin care but if you take the wound care part isolation it was 8%. And we had a weak quarter in China and in Saudi Arabia and in Brazil. So those were the markets that were sort of pulling us down. So it's a little bit difficult to comment specifically on China for the market because we actually see two different things in China. One is that that our ostomy care business is growing at a very, very nice speed and that's of course also a much more private market than the wound care market is. But wound care is -- we see that wound care has sort of stabilized that we also expect it to be better, but we just can't guide you on when we expect China to be back into a very healthy growth when it comes to wound care. But we can confirm that the market has softened a bit. But we expect it to come back and we have not pulled the plug on investments that we're doing in China.

**Ian Douglas-Pennant** - UBS - Analyst

So, is it fair to say that the wound business in China you still expect 20%, 30% growth?

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**Lars Rasmussen** - Coloplast A/S - President & CEO

Not this year. (multiple speakers) So we expect the market to rebound and I just don't know at what point in time that will happen. So we have stayed put with the investments that we have put into China but we are not topping it up with extra investments in the current market situation for wound care.

And for the R&D, I think that we have said at many occasions that we are willing to invest what it takes to stay ahead of the game when it comes to R&D. For the time being we think that the levels of 3% to 4% is what we need but if we need more we will come back and inform you about it. But you have seen that it had climbed up a little bit over the last period we have a very, very healthy pipeline of new products coming up and we are very excited to back those.

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**Operator**

Carsten Madsen, SEB.

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**Carsten Madsen** - SEB - Analyst

Just one additional question here on emerging markets. This has already been tender and there was also sort of a challenge for you last year, but still you are not even close to go down to the 7% reported growth that you have today -- sorry -- organic growth. And you mentioned the other areas that suffer. What's your visibility on seeing improvement in the market for the coming three quarters, in emerging markets in particular, because it seems at a relatively low level you are reporting. And then more sort of an overall question on sort of US presidential status. There's been some focus on Trump implementing competitive bidding. I don't think it's on the table right now, but maybe if you can share some of your thoughts on the future pricing levels in the US market and maybe also import bans whatever.

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**Lars Rasmussen** - Coloplast A/S - President & CEO

It's like the first part of the question that suddenly became much easier after you came with the second one. But for Saudi Arabia, you're correct that we had it also last year and it's sort of just tailing off. It becomes every year we win it, but it's just smaller. We expect that the emerging markets will be growing at a higher pace for the rest of the year than what we've seen in the first part -- first year, but we have little visibility. But we do expect it to be more or less around up to the same level as we had last year. So like 10% to 15% for the full year. So that's where we are on emerging markets and that's the kind of visibility that we have. It is very much -- the oil-dependent countries that are pulling us down because they have this buying power for the time being.

And for the US, I think that you know the situation, when it comes to medical devices for most of the medical devices, we have lower prices in the US than we have in the rest of the world. So, I think it was the case for trying to really go forward. A lot of people are underserved, I would say, in the US when it comes to at least the chronic care patients, but we are watching what is going on as you are. So we will take stock of any new development but the fact is that we have tens of thousands of customers in the US and we have a lot of employees. We feel very committed and will invest whatever it takes to keep winning in the market.

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**Carsten Madsen** - SEB - Analyst

Okay, good. Thanks.





**Operator**

Martin Parkhoi, Danske Bank.

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**Martin Parkhoi** - *Danske Bank - Analyst*

Thank you much. Martin Parkhoi, Danske Bank. A couple of questions. Firstly, the M&A impact. I think that when you acquired Comfort Medical you said you could say more when it has been finalized and now it's finalized. And actually I think there is a pretty wide gap to say we will have an impact of 1% to 2% in 2016/2017, that's between DKK150 million to DKK300 million. So what was actually the annualized top line sales if you look at the sales in Q4, both before and after sales elimination?

And then secondly, now you mentioned yourself that you have been able to get some more hospital contracts in US. How big a percentage do you actually cover now where you have contracts on each of your divisions?

Then thirdly, South Korea as you mentioned on your front page and we already knew that there were some positive changes to reimbursement. Could you quantify because it's actually a quite big number if you look -- if you calculate that it's DKK50 per day that they're getting reimbursement then it's actually DKK450 million in potential sales in Danish kroner but that's of course (inaudible). How much do you think that you can get and how long time to get that? That was all.

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**Lars Rasmussen** - *Coloplast A/S - President & CEO*

That was all. Thank you. Could you start with the last one, Anders?

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**Anders Lonning-Skovgaard** - *Coloplast A/S - EVP, CFO*

I'll take the first one around the Comfort Medical margin. So our guidance in the Danish kroner for the year is now 7% to 8%. That includes what we earlier have said around Comfort Medical that Comfort Medical will contribute around one percentage point to two percentage point. And it also includes slightly improved currency from the dollar and the sterling effect of zero percentage point to one percentage point compared to when we had the Q4 announcement. So overall, our Danish kroner guidance for the year is 7% to 8%.

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**Martin Parkhoi** - *Danske Bank - Analyst*

I understand that.

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**Lars Rasmussen** - *Coloplast A/S - President & CEO*

If I can top it off, Martin, then -- now we have had a chance to look further into it and we have got confirmed what we also believed upfront that you put together the care strategy that you know very well and then the skills of Comfort Medical that gives us the desired edge in the US. And we think that the business case that we have behind this has definitely been confirmed very much so. So we are very positive about this, but at this point in time we can't give you more strict numbers than what you are looking -- which is what you're looking for here.

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**Martin Parkhoi** - *Danske Bank - Analyst*

That was not a good start.

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**Lars Rasmussen** - Coloplast A/S - President & CEO

No, but for us it's a very good start and we're very, very satisfied with what we see in Comfort Medical. When it comes to the hospital contracts, then as we have talked about earlier on we have access to more than 50% of all the hospitals -- significantly more than 50% of all hospitals in the US and we just get that confirmed as we move along, because we are closing a very nice number of new hospital contracts and we also mentioned one during the call. So we think we get that confirmed and that's also in the underlying numbers that we have. We actually, for the first time, gave you a number of what was the value of the stock reduction that we had in the US and that was \$10 million so that you have a chance also to see what's at least the underlying growth. And we can only give you this deeper insight because during the course of the last quarter we have come very, very close with our distributors so we can see effects in the market. And that also explains that if you look at the growth of the Company, when you take this into consideration, it's actually very, very strong.

So I think that it's just confirming that what we're doing in the US is really healthy. And I can only echo what you're seeing for South Korea. If I take the full value of and put that into the spreadsheet of what the value of a patient and if we can get all of them and the full value and so on, then it's of course fantastic. We are a little bit more cautious in the way that we are guiding. We are off to a very good start and we have very strong growth in South Korea.

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**Operator**

Scott Bardo, Berenberg.

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**Scott Bardo** - Berenberg Bank - Analyst

Thanks very much for taking my questions. So a few questions please. First question just relates to the coude category in North America. I was just wondering if you could explain a little bit about SpeediCath Flex and whether that gets reimbursement in this coude category. And just perhaps talk a little bit about does that limit this product to a niche indication which is my understanding for coude or is it your expectation that it is more widespread product under that heightened reimbursement framework? So if you could just talk a little bit about Flex and how you see that sort of positioning in the marketplace?

Second question just relates, I wonder if you could give us a little bit of an update, I know we've been around the houses on this SpeediCath patent expiry, but it was my understanding that there was a lot of discussion about this being a 2017 sort of expiry. But correct if I am wrong we're starting to see some players enter the market now with sort of ready to go hydrophilic catheters that are already sort of pre-lubricated and things. So I just wonder is it the fact that actually the patent has now gone in the US and in Europe or are these sort of launching at risk around the patent or perhaps if you could just talk a little bit about that last please. And I have a follow-up perhaps (inaudible).

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**Lars Rasmussen** - Coloplast A/S - President & CEO

All right. When it comes to the coude category, it's a category which is growing at a very healthy rate. It's growing 15% to 20%. So the SpeediCath Flex in that category. And we have approximately 40% market share in it already, but that's with the uncoated catheters. So here we can make -- or give people an upgrade and by the way also make sure that we don't see -- well thus basically no competitor has been -- it's not a generic product anymore that we have to have. Actually we think that's not just needs. It's actually real value per patient that we are talking about there. Was that what you asked?

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**Scott Bardo** - Berenberg Bank - Analyst

I just wanted to -- in my understanding these products were sold to patients with a large prostate. So, what I'm just trying to understand is is that a very small sort of segment of the market or are we talking a big segment of the market under this --?



**Lars Rasmussen** - Coloplast A/S - President & CEO

It's 25% of the total IC market in value.

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**Scott Bardo** - Berenberg Bank - Analyst

In value.

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**Lars Rasmussen** - Coloplast A/S - President & CEO

Yes.

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**Scott Bardo** - Berenberg Bank - Analyst

Then volume probably can --

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**Lars Rasmussen** - Coloplast A/S - President & CEO

Yes, that's a different number. It's probably lower.

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**Scott Bardo** - Berenberg Bank - Analyst

Okay. Thank you.

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**Lars Rasmussen** - Coloplast A/S - President & CEO

And your second question was regarding the patent expiry. And of course the patent is expiring at the end of our fiscal year. And we do see what you're also seeing and of course we are defending ourselves to the last day. There is no change as compared to what we did beforehand.

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**Scott Bardo** - Berenberg Bank - Analyst

How does that work, Lars, if you don't mind me sort of asking that because the patents are there for reasons to be enforced [and this is probably] end of this year. How come already you were seeing people enter the market? I would have thought that's sort of stepping on legal framework and things. (multiple speakers)

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**Lars Rasmussen** - Coloplast A/S - President & CEO

In the cases where that happens and where we have patents in those countries, we take the legal route and sometimes in some jurisdictions you can block people out immediately, in others they are allowed to sell or they are not allowed to sell. But they can sell while you try to block them and if at court level they are -- it's obvious that they are violating your patents. They will then have to pay you a fine and compensation for your losses. So they do it at their own risk.

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**Scott Bardo** - *Berenberg Bank - Analyst*

Okay. Understood. And just a little bit of comfort, Lars, obviously this had been talked about a lot. You're now upgrading sort of the compact versions in the US and that seems to be going very nicely now. Can you at least give us a flavor now of how much of your US business, your volume in the US and your value in the US is now these compact versions so we can get some (technical difficulty)?

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**Lars Rasmussen** - *Coloplast A/S - President & CEO*

Yes, I could do that. So in the US, 40% of IC sales is now hydrophilic and that is up from 15% five years ago.

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**Scott Bardo** - *Berenberg Bank - Analyst*

And that's pretty much compact, Lars?

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**Lars Rasmussen** - *Coloplast A/S - President & CEO*

It varies from gender, you could say, so, more on the female than on the males. We don't go further down on that one.

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**Scott Bardo** - *Berenberg Bank - Analyst*

Understood. [I am not going to ask you to] give that disclosure. And just last sort of bigger picture question, if I may, sorry, I appreciate we've been having a bit of a dialog. At your Capital Markets Day in --

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**Lars Rasmussen** - *Coloplast A/S - President & CEO*

And by the way I would like to say that taking this market share from 15% to 40% over this period of time surely impacting the market. I think that -- you know how the dynamics work when it comes to money in the US. I'm pretty proud of this.

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**Scott Bardo** - *Berenberg Bank - Analyst*

I can understand that. And just to understand at your Capital Markets Day just the day before Brexit, you highlighted this journey to hire an extra 3,000 employees to drive growth. Can you -- I appreciate you just hired some with Comfort, but excluding that, can you give us a sense of where you are with this journey and how far along you are with sort of getting out human resources and making these offers?

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**Lars Rasmussen** - *Coloplast A/S - President & CEO*

First of all we are around 11,000 people in the Company today and we are hiring at a speed that we think makes sense given where we are in the different markets. You always have plans and then you have to take stock of reality and you could say that reality have changed quite a bit in the UK and in the US, but by the way in those two markets we have not hold back. We basically push on to upgrade as fast as we can. And I think that if we're looking at both markets where there have been the biggest changes since we had the Capital Markets Day we actually have very healthy growth in those markets.

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**Anders Lonning-Skovgaard** - Coloplast A/S - EVP, CFO

And Scott, a big majority of the 3,000 extra employees that we talked about at the Capital Markets Day is also going into our production. And we have just announced that we are going to open up a new facility in Nyirbator and here we will hire more people in order to produce (inaudible) 00:39:00

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**Operator**

Romain Zana, Exane BNP Paribas.

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**Romain Zana** - Exane BNP Paribas - Analyst

Thank you for taking my question. Most of them have already been answered. But I still have two. The first one on the wound care. For the past couple of quarters you've been mentioning that you were switching at both outside of China to other emerging markets and I was wondering if you already see the benefit of this change in strategy.

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**Lars Rasmussen** - Coloplast A/S - President & CEO

I'm not sure I understand the question. Could you elaborate a little bit on it? Yes, I don't get it.

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**Romain Zana** - Exane BNP Paribas - Analyst

According to my understanding the weakness in China you are mentioning that the sales and marketing efforts would be switched to some other emerging markets where you are (multiple speakers).

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**Lars Rasmussen** - Coloplast A/S - President & CEO

That's at least -- if we have communicated that's wrong because we are keeping the pressure on the wound care market in China. What we are doing is that we are very concentrated on both accounts that we really follow through on, but we have not taken out people from China to relocate them elsewhere in other markets.

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**Romain Zana** - Exane BNP Paribas - Analyst

Sorry for the misunderstanding. The other one is a bigger picture question on the profitability. Taking into account the current full-year guidance the EBIT margin should be virtually flat around the 33% for the fourth year in a row. So what should significantly boost the operating leverage in the long term to achieve your long-term target? I'm thinking especially also about the pricing pressure and was wondering in what extent you still have the net benefit of the location, the manufacturing with Tatabanya or is it just balancing the pricing pressure on the market?

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**Lars Rasmussen** - Coloplast A/S - President & CEO

Yes, so as you aware our finance ambition in the coming planning period is to grow 7% to 9% and at the same time improve our EBIT margin 50 to 100 basis points and that is on a fixed currency scenario. You are aware also that we are impacted by especially the sterling, we were impacted by that the last financial year it was around 50 basis points and that's also what we have been impacted by, in the first quarter this year. But as we are growing in the level of 7% to 9%. So if you are growing in the lower end of our guidance, we also are expecting to improve in standard currencies in the lower end of our EBIT margin guidance, so around 50 basis points and that is very much driven by a scale effects and leverage throughout the organization. On top of that, we are working on the initiative of moving production out from Denmark to Hungary. So we have been in the last couple of years been working on moving machines that are producing our new products to Hungary. And as a consequence of those transfers we



are reducing the number of employees or production employees in Denmark with 300. And the last year we reduced it with 100 and our expectation is also that we will reduce 100 this year and then 100 again in 2017/2018. And the total saving from this initiative is going to be DKK80 million to DKK100 million. So, we also expect that that initiative will contribute to our overall EBIT margin expansion.

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**Anders Lonning-Skovgaard** - *Coloplast A/S - EVP, CFO*

And then to top that off, a lot of the deliveries affecting the Company also comes from the commercial organization where in many of the markets that we are in, we have a very healthy growth without adding extra people. So that also is part of why we expect to still increase the EBIT margin, but there's no doubt that we had quite an impact from the starting.

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**Operator**

Ines Silva, Bank Of America Merrill Lynch.

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**Ines Silva** - *Bank Of America Merrill Lynch - Analyst*

Thank you for taking my questions. I just have three quick ones, please. So the first one is just a follow-up on a previous question regarding China and specifically wounds. So, you commented that the growth was a bit weak there. But could you just comment on what happened this quarter versus last quarter? So is it decelerating, accelerating, how do you see that market?

Then the second one is, I know you're not willing to, at this point, to give any numbers on Comfort Medical, but can just explain to us a little bit now that you've looked at this business for a couple of months what kind of benefits you think it can bring to your continence growth in the future or are we seeing already anything in the short term? And then the third one was just, if you could comment on the potential tax reform in the US and how do you see that impacting your business, specifically potential tax rate reduction and the (inaudible). Thank you.

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**Lars Rasmussen** - *Coloplast A/S - President & CEO*

Yes. China is, as I said, a mixed picture because we actually have fantastic growth in ostomy care and from an extremely strong position. So the weakness that we have in China is the growth rate of the wound care business. So if we look at how it is this quarter compared to last quarter, it is more or less the same picture. So we just expected to improve as an overall situation for the rest of the year, but we do have targeted growth totally in China as we speak. So I think that it's not what we had invested for, but it's not something where we are saying that we should reconsider the way that we are investing. We actually believe that we will be able to use this new situation in China to even improve or to further improve our business there.

When it comes to Comfort Medical, what we looked for when we acquired Comfort Medical was to see if we could accelerate the product upgrades that we talk about and that's across the board when we talk of products. It's both for IC or intermittent catheters and also for ostomy care and we think that that is definitely doable. That is not least because we already have a very strong program in the market our direct-to-consumer program which we call Care. This is a place where the people who have a chronic condition, they become a member of our Care program and in that context we can now offer them a much better service than what we could before. We get much more leads in Care that we would ever be able to take care of ourselves. So we are still a very attractive partner for other dealers also.

But this gives us an opportunity to accelerate the product upgrade in the US. And the US is behind when it comes to the technology that people are using on a daily basis. So there is an untapped potential. The population of especially people who use intermittent catheters in the US can for the same price as society and they pay today, they can get a significant upgrade and that is what we're using Comfort Medical for. And that's, by the way, also a good business to us. So we have just got that confirmed with what we know by now. And we think that we have got a very strong asset and a very strong management team on board with this acquisition. So if anything it's just increased our appetite.



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**Anders Lonning-Skovgaard** - *Coloplast A/S - EVP, CFO*

And in connection with your question around the tax rate, we are today paying most -- the majority of our tax is paid out of Denmark, actually around 80%. So, a potential corporate tax reduction in the US will not have a significant impact on our overall tax rate. So we are expecting that our corporate tax rate of around 23%, we also expect that in the future.

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**Ines Silva** - *Bank Of America Merrill Lynch - Analyst*

Are you willing to comment on the potential border tax or no?

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**Lars Rasmussen** - *Coloplast A/S - President & CEO*

We think it's speculative and would that change our commitment to the US market, it will not.

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**Ines Silva** - *Bank Of America Merrill Lynch - Analyst*

Just a quick follow-up on the Comfort Medical, the main objective with this acquisition is to accelerate the upgrades and when you talk about this upgrades, these are only within the population that's served by Comfort Medical, right?

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**Lars Rasmussen** - *Coloplast A/S - President & CEO*

So the whole idea of us investing in Care in the US and the way that we had tailored Care in the US is to be able to inform users of the rights, of the opportunities that they have, the kind of products that they can get if they understand what to ask for and how to ask for it. As I said before you can, as a user or as a patient in the US, you can actually ask for significantly better products without any extra cost to themselves and to society. So that's the whole idea why we have created Care. It works extremely well. We get more and much more people signed up than what we believed in and we, of course, will take some of those patients also into Comfort Medical.

We tested out this model in connection to the changes that we did to our direct business in the UK. And we have seen a significant improvement of our competitiveness in the UK market due to the changes that we did. And this of course, those experiences and what we learned from that, that we are taking into the way that we are handling the acquisition that we did of Comfort Medical. And we've just got that confirmed as we are looking deeper into that business.

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**Ines Silva** - *Bank Of America Merrill Lynch - Analyst*

So it's fair to say you bought know-how. It looks like in the UK you also get know-how from Charter business?

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**Lars Rasmussen** - *Coloplast A/S - President & CEO*

Of course, because now work directly with the health insurance companies. So we understand much more what that angle of it is also. But we, of course, also just expanded our contacts with the users compared to what we had before. We already had a pretty large call center in the US, but now we have one which is significantly bigger.

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**Operator**

David Adlington, JP Morgan.



**David Adlington** - *JP Morgan - Analyst*

Most of my questions have been asked. Just a very boring housekeeping question. The DKK100 million headwind in net financial, that's when we get phasing on that, it's going to be phased towards Q2 and Q3. Thank you.

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**Lars Rasmussen** - *Coloplast A/S - President & CEO*

So the headwind we are going to have on the net financial, it's my expectation that that is more or less equal split across rest of the year. So that is my expectation David.

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**David Adlington** - *JP Morgan - Analyst*

Thanks. And sorry for the boring question.

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**Lars Rasmussen** - *Coloplast A/S - President & CEO*

It's quite okay.

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**Operator**

Christian Ryom, Nordea Markets.

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**Christian Ryom** - *Nordea Markets - Analyst*

This is Christian Ryom from Nordea markets. I have a couple of questions. First, can you elaborate on your decision to relaunch the Comfeel Plus wound care product and how this fits with the overall wound care strategy and what your expectations are for this product? And then secondly on your skin care performance in the US this quarter, this is entirely down to a tough comparison in the first quarter of last year or is there something else that affected this quarter? And then finally, if you wouldn't mind, can you give us a clarification on exactly when the new tender prices in Saudi Arabia has been implemented, i.e., should we expect this effect of this Saudi Arabian tender of around DKK30 million in drag to persist throughout the year? Thank you.

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**Lars Rasmussen** - *Coloplast A/S - President & CEO*

All right. So for the last one, I can say no. You should not expect that. That was a quarterly award. And then I think it in that order. So the next one is the skin care numbers, the only explanation is it's just brutal comps. So nothing else about that, but as we said last quarter -- as part of the LEAD20 strategy we are investing in wound and skin care in the US. So now we have a new head of wound and skin Care in place in the US. And we are, that piece of the work is progressing as it should and we do expect to step up our investments in the US to get much stronger position in the US in the coming years, as we also discussed last year. And with the relaunch of, you could say, a pretty old product portfolio, it is a product portfolio of a technology which is quite well recognized in the market and which is used in many markets as the primary choice and with this relaunch, we have given the products you could say 2016 features and it's actually been received more positively than what we had expected. So that's also the reason why it even pops up in the announcement that we come with because it is actually giving an extra, you could say, an extra goal for this product portfolio, which is kind of one of the cornerstones in the old portfolio in this area. So we think that that means that is going to live for quite some years still. So that's all positive. Thank you.

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**Operator**

Gunnar Romer, Deutsche Bank.

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**Gunnar Romer** - Deutsche Bank - Analyst

Gunnar Romer, Deutsche Bank. Thanks for taking my questions. Just a follow-up on the stocking effect, you mentioned DKK70 million drag in the first quarter. I was wondering whether you can break that down by your business lines. Same question also for the tender or at least provide an indication where you saw most of the effects of these two. I would have a follow up afterwards.

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**Lars Rasmussen** - Coloplast A/S - President & CEO

It's for both of them, it's probably approximately something like two-thirds continence care and one-third ostomy care.

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**Gunnar Romer** - Deutsche Bank - Analyst

That's very helpful. Thank you. And then regarding emerging markets, I understand there was a significant drag of the Saudi tender. And then you indicated I think that you would expect growth for the full year in the range of 10% or 12% to 15%. Backing that out, I mean you could be in that range already in the second quarter, is that the right way to think of the acceleration in the emerging markets or is there anything else to bear in mind?

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**Lars Rasmussen** - Coloplast A/S - President & CEO

Yes, you should bear in mind that we have had you could say some stock filling this quarter in Greece for the new product that comes in because in Greece there was a very severe reform on wound care. And that means that the products that we used in the past in Greece, they can no longer be sold because there is simply no funding for them. So we have been feeding off the stock with the new products that are going to be sold, and that means that in the coming quarter we're then going to reduce the stock of the current portfolio. So in that sense, we'll see for the full year it's going to improve over the year, but there will be some effect in the second quarter from Greece in emerging markets.

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**Operator**

Scott Bardo, Berenberg.

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**Scott Bardo** - Berenberg Bank - Analyst

Thanks guys for squeezing me in. Just couple of quickies. Anders, would you mind giving us your expectation for what do you think absolute debt or net debt will be for the Company on a full-year basis?

Second question, Lars, (inaudible) surrounding your budgeting growth. Can you give us how much of this 8% wound comes from Greece? It sounds like a good chunk of that growth comes from Greece, but if you could just give us a flavor for what sort of -- how much that contributes?

And lastly, you talked about increased appetite for this sort of experience with Comfort. You've not got a bit of a taste of debt which we haven't seen for some time in Coloplast. Much of that signals that there is a real sort of step change within the organization towards deploying capital when starting to mop up assets in the supply chain (inaudible) move in urology or something like that, if you could just talk a little bit strategically about capital deployment please, Lars, appreciated.

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**Lars Rasmussen** - Coloplast A/S - President & CEO

I can do that. And as I've said at several occasions we don't have much appetite for anything that have to do with non-organic growth in coloprology care for good reasons and that is back to the fact that we do have the domestication going on and we concentrate on that. But you could also say that while we do that and when you look at the moving parts in that specific space in the market, we are actually doing quite well. We have -- over the course of the last five years, we have increased our EBIT margin significantly inside of urology care and we have around 8% to 9% growth in the business area. I think that we are doing really well.

When it comes to Comfort and our experiences with that, I think it's -- you know that we are not a company that have done a lot when it comes to inorganic growth. So, this is not us, at this point in time, a change of strategy. It is an opportunity that we think that we'd like to pursue. We have been positively surprised by what we have found. If that means that we at some later point in time change our mind about this how much should be organic and inorganic and so on, we'll come back tell it to you good time. We think that we can grow 7% to 9% organically and that is what we're dedicated to do. So that's just to make that very clear.

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**Anders Lonning-Skovgaard** - Coloplast A/S - EVP, CFO

And, Scott, in terms of the net debt position, end of the year, my estimation is around minus DKK1 billion. But that is very much depending on my expectations to the cash outflow from the mesh. And currently I expect we would have a cash outflow of minus DKK2.6 billion at the end of the year.

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**Scott Bardo** - Berenberg Bank - Analyst

And just lastly on sort of how impactful was Greece?

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**Lars Rasmussen** - Coloplast A/S - President & CEO

It's not a number that we give out, but it's not what was sort of constituting the growth for the first quarter. There are many sources for that.

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**Operator**

Ines Silva, Bank of America Merrill Lynch.

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**Ines Silva** - Bank Of America Merrill Lynch - Analyst

I'm sorry. Just a quick last one.

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**Lars Rasmussen** - Coloplast A/S - President & CEO

No, that's fine. I was just too slow.

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**Ines Silva** - Bank Of America Merrill Lynch - Analyst

I'm very sorry. But I was just wondering if you are still comfortable with the guidance you gave us in the Capital Markets Day on the impact that your business could see from the patent expiry both on potential positive or negative, so if you think it could be more than 10% to 15% of revenue or less than that?



**Lars Rasmussen** - Coloplast A/S - President & CEO

We gave a guidance of approximately DKK100 million in one-off effect in the year where we go out of patents and that's unchanged.

**Ines Silva** - Bank Of America Merrill Lynch - Analyst

Okay. Thank you very much.

**Lars Rasmussen** - Coloplast A/S - President & CEO

And I think if there is one last question we take that and then we close.

**Operator**

We have no further questions in the queue.

**Lars Rasmussen** - Coloplast A/S - President & CEO

Thank you very much. We are looking forward to seeing you all in the coming weeks.

**Operator**

Thank you.

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