Coloplast

Ostomy Care
Continence Care
Wound & Skin Care
Urology Care

Q4 19/20 Pre-close brief – September 2020

Prior to entering our close period on October 2, 2020, ahead of reporting our full year results on November 3, 2020 for the period ending September 30, 2020, we would like to bring the following highlights to your attention.

COVID-19 update: Q4 and 2019/20

- Group growth for Q4 will be around 2% organic growth.
- The negative impact from COVID-19 on the **Interventional Urology** business gradually normalised during H2 as expected. Momentum improved across Q3 (-70% April, -35% May, -3% June) and the development in July and August was -4%, -1% with September roughly on par with August.
- The recovery in surgery and treatment levels within **Ostomy- and Continence Care**, especially in the UK has been slower than expected and due to COVID-19 fewer new patients are being screened, diagnosed and treated compared to last year. Growth in the UK (approx. 15% of total group revenues) will be flat in Q4.
- The large positive stock building impact in **Chronic Care** during Q2 of around DKK 150m in primarily Europe, largely reversed during Q3, and has now reversed completely during Q4.
- The situation in **China in Ostomy Care and Wound Care** gradually normalised during H2. As expected Ostomy Care is back to growth and surgery levels have normalized. It has taken longer for the situation in Wound Care to normalize.
- In our **Wound & Skin Care** business, Wound care continues to be negatively impacted by lower hospital activity overall, in particular in China and France. Momentum improved during Q4 vs Q3. Our Skin Care business in the US and our Contract manufacturing business have both been negatively impacted by COVID-19 and lower demand. Momentum in the Skin Care business improved in Q4 vs. Q3.
- The quarterly phasing of growth last year 18/19 was Q1 8.3%, Q2 7.9%, Q3 7.6%, Q4 7.6%. In H2 18/19, Emerging markets growth was positively impacted by tender deliveries in Russia. In 19/20, the majority of tender deliveries were made in H1 19/20.
- Q4 19/20 gross margin contained no restructuring costs (DKK 17m in Q1 18/19, DKK 10m in Q2 18/19 and DKK 16m in Q3 18/19 and zero in Q4 18/19).
- In 19/20 despite the COVID-19 outbreak our investments into R&D remained unchanged as well as the majority of the approved commercial investment cases. We invested up to 2% of sales in incremental investments. In Interventional Urology, the commercial investments resumed in Q4, in particular in the US, after being put on hold as the business recovered from the impact of the COVID-19 outbreak.

Moving parts into 2020/21

- Interventional Urology positively impacted by comparison period in 2019/20
- Uncertainty around growth in new patients across Chronic Care in UK and other markets in particular in Europe
- Uncertainty around resumption of hospital activity impacting Wound & Skin Care
- No current knowledge of significant healthcare reform vs. French reform in 2019/20
- In summary, we expect low single-digit growth in H1 and double-digit growth in H2
- For H1, the key moving parts include weaker growth in Europe due to lower growth in patient inflow in the UK in particular, Q2 19/20 baseline due to approximately DKK 150m in stocking in Europe due to COVID-19 and comparison periods in Interventional Urology and Wound & Skin Care
- For H2, the key moving parts include positive impact from comparison period in Interventional Urology, EU baseline including destocking in Q3 and UK in Q4 and the comparison period in Wound & Skin Care

- On the EBIT-margin, H1 margin will be impacted by lower sales, investments initiated again across all BA's and we will invest up to 2% of revenues in R&D and commercial investments, continued savings due to less travel and lower sales & marketing costs due to COVID-19

- Currency impact: headwind expected from USD and Emerging market currencies, positive impact from HUF

- Capex guidance for 20/21 will be in the upper end of 4-6% of revenue due to Costa Rica and the automation program within GOP5

Product update

- The launch of Biatain Fiber, a gelling fiber dressing for the treatment of deep wounds, has now been launched across 6 markets and has been well received.
- SpeediCath Soft, a soft hydrophilic catheter for the A4351 reimbursement category in the US has been launched.

US GPO update

- Coloplast has been awarded a three-year group purchasing agreement for ostomy products with Premier Inc. beginning April 1, 2020 (~25% share of US acute ostomy market).
- The smaller GPO, HealthTrust (~15% share of US acute ostomy market) has announced it will continue with its current supplier, Hollister.
- Vizient, the largest GPO (~50% share of US acute ostomy market) has initiated the process for the next purchasing agreement. A decision is expected during H1 2021 and the new contract is expected to start July 1st, 2021.

Capital Markets Day

- We hosted a virtual Capital Markets Day on September 29th, where we presented the company's new strategy for the next 3-5 years. All the presentations and webcast can be found on our website: https://www.coloplast.com/investor-relations/capitalmarketsdays/capital-markets-day-2020/
- On October 7th and 9th, we will host break-out sessions for Chronic Care (US and China), Wound & Skin Care, Interventional Urology and Sustainability (please see the link above for more information). The presentations for these sessions are already available on the website.

Financial guidance for FY19/20

(DKK guidance is based on spot rates as of August 14th 2020)

- We expect organic revenue growth of around 4% at constant exchange rates and a reported growth in DKK of 3-4%.
- Up to 1%-point negative price pressure
  - The French price reform negatively impacted organic growth in Q1, Q2 and Q3 19/20.
  - Currently we have no knowledge of other significant healthcare reforms.
- We expect an EBIT margin of around 31% at constant exchange rates. The reported margin in DKK is expected to be around 31% (upper end of range). The reported margin in DKK is positively impacted by the HUF, but this is offset by the depreciation of the USD, BRL and ARS against the DKK.
- The EBIT margin guidance reflects additional incremental investments of up to 2% of revenue for innovation and sales and marketing initiatives and continued prudent cost management (global travel ban, smart hiring, sales and marketing events have been cancelled, etc.)
- Gross margin is negatively impacted by the lower growth in Interventional Urology, given that the Interventional Urology business has a gross margin above group average.
  - Negative impact from reimbursement reforms.
  - Leverage effect on fixed costs e.g. distribution, admin and R&D costs (our rule of thumb is that the leverage effect kicks in at ~5% organic growth)
  - Gross margin in fixed currencies expected to be positive impacted by Global Operations Plan 4 – savings of 100bps partly offset by negative impact from wage inflation and labour shortages in Hungary

- CAPEX guidance for 19/20 is ~950m DKK.
  - CAPEX includes investments in more capacity for existing and new products, including the new manufacturing site in Costa Rica which is expected to open at the beginning of 2021. Furthermore, we will also invest into automation at our volume manufacturing sites in Hungary and China to mitigate the increasing headwind from wage inflation and labour shortages in Hungary.
- We expect our net financials to end the financial year 19/20 at around DKK -350m based on spot rates as of August 14th, 2020
- Effective tax rate of ~23% (Danish corporate tax rate 22%). We pay ~80% of our taxes in Denmark

Foreign exchange rates

- In connection with our consensus survey we will send an updated spot rate overview based on spot rates at the end of September. Please also see our FX slide on page 48 in our latest roadshow presentation.
- As disclosed in connection with our FY 18/19 results, the Argentinian economy meets the characteristics of a hyperinflationary economy according to IFRS and, as such, we again this year apply IFRS accounting principles with regards to Argentina.

Currency	Average exchange rate for FY 2018/19	Spot rate, 25 September 2020	Change in spot rates compared with the average exchange rate for 2018/19	Average exchange rate for 2019/20YTD (1st Oct 2019 to 25th Sep 2020)	Change in average exchange rates compared with average exchange rate for FY 2018/19
Key currencies:					
USD	662	638	-4%	667	1%
GBP	844	815	-3%	850	1%
HUF	2.31	2.05	-11%	2.17	-6%
Other selected currencies:					
CNY	96	94	-3%	95	-1%
JPY	6.01	6.05	1%	6.18	3%
AUD	466	451	-3%	452	-3%
BRL	171	116	-32%	141	-18%
ARS	11.91(1)	8.41	-29%	8.41(1)	-29%

1) The hyperinflationary economy in Argentina entails that results denominated in Argentinian Peso must be adjusted for inflation and be translated at the exchange rate of the balance sheet day which was DKK 11.91 per ARS 100.00 at 30 September 2019 and DKK 8.41 per ARS 100.00 at 25 September 2020.

Please do not hesitate to reach out to Investor Relations if you have any questions.

Best regards

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