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Coloplast A/S (CLPBY.DK)

Q4 2024 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, welcome to the Full Year 2023/2024 Conference Call. I am Maria, the Chorus Call operator. I would like to remind you that all [audio gap] (00:00:19-00:01:03)

Kristian Villumsen
President & Chief Executive Officer, Coloplast A/S

Thank you very much, operator. Good morning, and welcome to our full year 2023/2024 conference call. I'm Kristian Villumsen, the CEO of Coloplast, and I'm joined by our CFO, Anders Lonning-Skovgaard, and our Investor Relations team. We'll start with a short presentation by Anders and myself, and then open up for questions as we usually do.

Please turn to slide number 3. We delivered 8% organic growth and a reported EBIT margin before special items of 27% for the 2023/2024 financial year. Return on invested capital after tax and before special items was 15%, reflecting impact from the acquisition of Kerecis. This year, we continued to help millions of people with their healthcare needs and we also welcomed more than 270,000 new users to our support program, Coloplast Care.

In our fourth quarter, we delivered organic growth of 8% and a reported EBIT margin before special items of 26%. Anders will take you through the details later, but the EBIT margin in the quarter reflects significant negative impact from extraordinary costs as well as negative impact from currencies. The EBIT margin run rate going into the 2024/2025 financial year is 27%. I'm satisfied with this year's organic growth of 8%, which reflects continued market share gains and a strong year in our Chronic Care businesses in Europe and Emerging markets.

Our two smaller businesses, Voice and Respiratory Care and Advanced Wound Care, both grew double-digits. Kerecis delivered growth of around 35% in line with our plan and with continued strong reception of the fish-skin technology in the US-centric biologics market. This was also a year of launches, with a significant number of new products being launched in our Chronic Care businesses and Advanced Wound Care, and I'll get back to this in more detail later.

We have a lot to be proud of this year, but we also encountered some significant challenges. The establishment of the new distribution center for the US market has led to supply disruptions and extraordinary costs, impacting both our customers and financial performance, mostly in Chronic Care. The situation is now largely resolved and we're able to meet the demand in the market, but we continue to operate at a lower efficiency level and we expect operational efficiency to be fully normalized by the end of the first half of the 2024/2024 financial year.

Our Interventional Urology business grew below expectations, impacted by competitive pressure, and while the business is expected to remain below our growth ambition short-term, we are confident that we can return to high-single-digit growth beyond the strategic period supported by the anticipated entry in the overactive bladder market with INTIBIA in the 2025/2026 financial year.

Now, let's look at some of the key highlights from our Strive25 strategy. Please turn to slide number 4. First, let me talk a bit to growth. With our Strive25 strategy, we set out to add long-term growth and value creation options to our portfolio through M&A. We made three significant investments in the first half of the strategic period with the acquisitions of Atos Medical, Kerecis, and INTIBIA. We are now almost three years into the acquisition of Atos Medical, and I'm satisfied that both performance and integration of the business have progressed in line with our expectations.

We also continue to see a significant white space opportunity with many people either not having access to the products or using significantly less products than optimal. I've said many times that Atos Medical is a business that shares the same characteristics as our Ostomy and Continence Care businesses. It uses the same growth model of great products, long-term partnerships with clinicians and a strong direct-to-consumer engine, and as such, represents a significant long-term growth and value creation opportunity much like our Ostomy and Continence businesses have been for decades.

With Kerecis, we acquired a highly differentiated technology based on fish-skin. We aim to build a category leader in the biologics market with this acquisition. Kerecis gives us an opportunity to transform the value creation from our Advanced Wound Care business and turn it into a strong contributor to the group. To support Kerecis' growth trajectory and continued market share gains, we have a strong focus on strengthening the body of clinical evidence that documents the performance of the fish-skin technology.

Recently, we published the results of a new randomized controlled trial that we call Odinn. The Odinn study is the largest Kerecis study to date, with 255 patients showing superior healing of severe diabetic foot ulcers treated with Kerecis fish-skin compared to the standard of care. We will use the study results to continue expanding coverage in the US and we have also submitted the study for consideration in the Local Coverage Determination process. We continue to expect the final LCD policy to be published by the end of 2024.

Next, let me talk a bit to innovation. This is a year with several significant product launches that will support growth during Strive25 and beyond. With Luja, our new intermittent catheter with a unique Micro-hole Zone

Technology, we're setting a new standard in the category by addressing key risk factors related to urinary tract infections, which remain a significant challenge for users. We're already seeing significant contribution to growth in Continence Care from the male Luja catheter and the launch of the female catheter is ongoing. The product is currently available in five markets, where it's received very positive customer feedback.

In Ostomy Care, we strengthened our main growth driver, the SenSura Mio portfolio with three new strategic product expansions in 2024. We also launched Heylo, a digital leakage notification device in the UK, where the product received national reimbursement earlier this year, and work to obtain reimbursement in Germany is ongoing, but it's been delayed and we now expect launch of Heylo in Germany in the second half of 2025. In Advanced Wound Dressings, we launched Biatain Silicone Fit, a new silicone dressing for the US market with the aim to increase our presence in this key geography, where today we have a limited position.

Now, let me zoom in on operational efficiency. We're making good progress on the diversification of our manufacturing footprint. The ramp up of Costa Rica continued during the year, and Costa Rica now accounts for 13% of produced volumes, almost double last year. The establishment of our new manufacturing site in Portugal is on track and the site is expected to be operational in 2026. The site in Portugal will be the largest site for Coloplast to date at around 30,000 square meters. The sites in Costa Rica and Portugal remove the need for additional factories until 2029/2030 financial year.

Finally, on our sustainability initiatives. We continue to make good progress on our recycling efforts, where we are ahead of our 2025 ambition, with 77% of our production waste now recycled. In addition, we reduced our Scope 1 and 2 emissions by 27% from the base year 2018/2019, mostly driven by efficiency improvements and the phase-out of natural gas.

Let's look at today's results in more details. Please turn to slide number 5. In Ostomy Care, organic growth was 7% for the full year and growth in Danish krone was 6%. Organic growth in Q4 was 6% and growth in Danish krone was 7%. Our SenSura Mio portfolio continues to be the main growth driver, followed by the broader range of supporting products. Our SenSura and Assura/Alterna portfolios continue to post solid growth in Emerging markets.

From a geographical perspective, all regions contributed to growth in Q4. The US posted double-digit growth and benefited from the resolution of the supply disruptions related to the establishment of the new distribution center, which emerged in Q3. Growth in Emerging markets was held back by a high baseline last year, most notably in China, which had a neutral impact on growth in the quarter.

In Continence Care, organic growth was 8% for the full year and growth in Danish krone was 7%. In Q4, organic growth was 10% and growth in Danish krone was 12%. Growth in the quarter was driven by good contribution from all segments with intermittent catheters and the SpeediCath portfolio as the main growth contributors. The new Luja intermittent catheter also made a strong contribution to growth in Q4, showing an acceleration compared to Q3.

Growth in our Bowel Care business was driven by Peristeen Plus in Europe and the US. Our Collecting Devices also made a solid contribution to growth in the quarter from a lower baseline last year. From a geographical perspective, growth was broad-based across regions. The US made a solid contribution to growth and benefited from the resolution of the supply disruptions related to the establishment of the new distribution center. Markets for reimbursement has been recently established or improved, such as Poland, continued to perform well and grew double-digit.

Voice and Respiratory Care posted 11% organic growth for the full year with growth in Danish krone of 9%. In Q4, organic growth was 12% and growth in Danish krone was 10%. Reported revenue includes negative impact from product rationalization of 1% in the full year and 2% in Q4. This strong performance in Voice and Respiratory Care continues to be driven by broad-based contributions from both Laryngectomy and Tracheostomy, both of which grew at a double-digit rate in Q4.

In Laryngectomy, growth was driven by an increase in the number of patients served in existing and new markets, as well as an increase in patient value driven by the Provox Life portfolio. Growth in Tracheostomy in the quarter was driven by continued solid demand and positive impact from forward integration. From a geographical perspective, all regions contributed to growth led by Europe and the US.

In Advanced Wound Care, organic growth was 10% for the full year and growth in Danish krone was 40%. Organic growth in Q4 was 10% and growth in Danish krone was 33%. Reported growth for the year includes 11 months inorganic impact from the acquisition of Kerecis. Growth in Advanced Wound Care in Q4 was driven by a strong quarter in Skin Care and one month organic contribution from Kerecis, partly offset by lower growth in Advanced Wound Dressings. The Advanced Wound Dressings business grew 8% organically in the full year and 4% in Q4. Growth in the quarter included impact from a higher baseline last year and from order phasing in Germany.

From a product perspective, the Biatain Silicone portfolio was the main growth contributor, while from a geographical perspective, growth was broad-based excluding Germany. Revenue from Kerecis amounted to around DKK 1 billion in the full year, of which DKK 296 million in Q4. The underlying revenue growth was around 35% in both periods. The in-patient channel and surgical wounds were the main growth contributors. Kerecis' operating profit margin excluding PPA amortization was around 10% in both periods, in line with our expectations.

In Interventional Urology, organic growth was 5% for the full year and growth in Danish krone was 4%. In Q4, organic growth was 7% and reported growth in Danish krone was 6%. The Men's Health and Endourology businesses were the main growth contributors in the quarter. Growth in the quarter also benefited from Women's Health, which returned to growth from a lower baseline in Q4 last year and from the backorder situation in Bladder Health and Surgery, which was stabilized in Q4. From a geographical perspective, the US was the main growth contributor in Q4.

And with this, I will now hand over to Anders, who will take you through the financials and outlook in more detail. Please turn to slide number 6.

Anders Lonning-Skovgaard

Chief Financial Officer & Executive Vice President, Coloplast A/S

Thank you, Kristian, and good morning, everyone. Reported revenue for the full year increased by DKK 2.5 billion or 10% compared to last year. Organic growth contributed DKK 1.9 billion or around 8% to reported revenue. Acquired revenue from the Kerecis acquisition contributed DKK 918 million to reported revenue in the full year, reflecting 11 months of inorganic impact. Acquired revenue contributed around 4% to reported revenue in the full year. Foreign exchange rates had a negative impact of DKK 260 million on reported revenue, or around 1%, related to the depreciation of the US dollar, Japanese yen, and a basket of Emerging markets currencies, most notably Argentinian peso against the Danish krone.

Please turn to slide number 7. Gross profit for the full year amounted to DKK 18.3 billion corresponding to a gross margin of 68% compared to 67% last year. The gross margin was positively impacted by the inclusion of Kerecis, which contributed around 100 basis points. In addition, favorable development in input costs, price increases, and the baseline benefit of around 40 basis points from the Italian payback reform also had a positive impact on the gross margin. The positive development in the abovementioned factors was partly offset by double-digit wage inflation in Hungary and ramp-up costs at our manufacturing sites in Costa Rica. The gross margin also included significant negative impact from currencies of around 80 basis points.

Operating expenses for the full year amounted to around DKK 11 billion. The like-for-like increase in operating expenses, excluding inorganic impact from Kerecis, was DKK 619 million or 7% compared to last year. Operating expenses developed largely in line with expectations, with the exception of the extraordinary costs related to the establishment of the new distribution center in the US. Kerecis contributed with DKK 990 million to operating expenses in the year, of which DKK 102 million were related to the PPA amortization, included under distribution costs.

The distribution-to-sales ratio for the full year was 33% compared to 31% last year and includes the impact from Kerecis and related PPA amortization costs. Distribution costs also included around DKK 60 million in extraordinary costs related to the new US distribution center, impacting the second half of the year. The admin-to-sales ratio for the full year was 5%, on par with last year, primarily impacted by the inclusion of Kerecis. The R&D-to-sales ratio for the full year was 3% of sales compared to 4% last year.

Overall, this resulted in an operating profit before special items of DKK 7.3 billion in the full year and a 6% increase compared to last year. The EBIT margin before special items for the year was 27% compared to 28% last year. The EBIT margin included negative impact of around 100 basis points from the inclusion of Kerecis, including PPA amortization costs. Currencies also had a negative impact on the reported EBIT margin of around 80 basis points, mostly related to the depreciation of the US dollar and the basket of Emerging markets currencies against the Danish krone.

Let me also put a few words to our EBIT margin development in the fourth quarter. We delivered an EBIT margin before special items of 26%, a result that was below our expectations and impacted by extraordinary costs and currencies. Our fourth quarter included DKK 45 million in extraordinary costs related to the US distribution center, which was higher than my earlier expectations of around DKK 35 million. We also had a one-off write-down of assets of around DKK 25 million impacting other operating expenses. Finally, currencies also put more pressure on the margin than initial estimates based on the spot rates from August. I expect the extraordinary costs to gradually diminish as we move into the new financial year and I expect an improvement in our EBIT margin already in the first quarter of 2024/2025 compared to Q4. I'll get back to this on the next slides.

Financial items in the full year were a net expense of DKK 925 million compared to a net expense of DKK 746 million last year, driven mostly by interest expenses related to the financing of the Atos Medical acquisition. The tax expense in the full year was DKK 1.3 billion, with a tax rate of 21% on par with last year, which includes positive impact from the transfer of Atos Medical Intellectual Property. The tax rate for the year was better than our previous expectation since of around 22% due to mix of currencies. As a result, net profit before special items for the full year increased by 4% compared to last year. Diluted earnings per share before special items decreased by 1% to DKK 22.34.

Please turn to slide 8. Operating cash flow for the full year was an inflow of DKK 2.8 billion compared to an inflow of DKK 4.2 billion last year. The development in cash flows was driven by higher income tax paid in the second quarter related to the Atos Medical Intellectual Property transfer, with a net negative impact of DKK 2.5 billion. The tax payment will be offset by reduced tax payments in the following years starting from full year 2023/2024. The tax payment was only partly offset by an increase in operating profit. Cash flow from investing activities was an outflow of DKK 1.3 billion compared to an outflow of DKK 9 billion last year, impacted by the acquisition of Kerecis.

CapEx for the full year amounted to around 5% of sales, on par with last year. As a result, the free cash flow for the full year was an inflow of DKK 1.4 billion compared to an outflow of DKK 4.7 billion last year. Excluding impact from extraordinary tax payments of DKK 2.5 billion in Q2, the adjusted free cash flow for the year was an inflow of DKK 3.9 billion. The trailing 12-month cash conversion was 81% and net working capital amounted to around 25% of sales compared to 26% of sales last year, driven by positive development in our inventories.

Now, let's look at the guidance for 2024/2025 financial year. Please turn to slide 9. For the 2024/2025 financial year, we expect organic revenue growth of 8% to 9%, and an EBIT margin before special items of around 28%. Reported revenue growth in Danish krone is expected to be around 8% to 9%, with a neutral impact from currencies. The organic revenue growth guidance assumes continued good momentum, and stable supply and distribution of products across the company. Growth across businesses and geographies is expected to be largely in line with our Strive25 assumptions with the exception of our China Chronic business and Interventional Urology.

The Chronic business in China and Interventional Urology businesses are both expected to grow at a mid-single-digit rate. Kerecis is expected to continue its strong growth trajectory and contribute around 1 percentage point to group organic growth. This assumes that Kerecis will remain on the covered list of products in the final LCD policy. We have no current knowledge of significant healthcare reforms and we expect positive pricing impact in 2024/2025, however, at a lower level compared to last year.

The gross margin in 2024/2025 is expected to be around 68% and improve compared to last year, driven by easing of inflationary pressure across input cost categories. In our biggest cost of goods sold category, raw materials, we expect flat development in prices year-over-year. Value adjustments in Hungary are expected to be around mid-single-digit compared to around double-digit last year. Electricity prices in Hungary, where we manufacture around 70% of our volumes, are hedged at around €100 per megawatt hour compared to an average price of around €150 per megawatt hour in 2023/2024. The positive development from the lower inflation across input costs is expected to be partly offset by ramp-up activities in Costa Rica and Portugal.

The EBIT margin guidance before special items assumes prudent management of operating costs expected to grow below reported revenue in Danish krone. The EBIT margin assumption also include positive impact of around 30 basis points related to initiatives to improve profitability in our Advanced Wound Care business, excluding Kerecis. The scope of the initiatives will be finalized in our first quarter, with the expected full impact from Q2.

For Kerecis, we expect a year with improved profitability. However, the negative impact on the group is expected to remain at around 100 basis points. The negative impact from the establishment of the US distribution center is expected to gradually come down by the end of first half of 2024/2025, with lower impact compared to 2023/2024. Currencies are expected to have a neutral impact on the EBIT margin.

In terms of phasing, we expect organic growth to be in the guidance range during the year. On the EBIT margin, we expect to start the year with an EBIT margin of above 27% in the first quarter, and then the EBIT margin is expected to gradually increase from here over the year. For 2023/2024 (sic) [2024/2025] (00:23:50), I expect around DKK 130 million in special items, mostly related to the ongoing integration of Atos Medical and the abovementioned initiatives to improve profitability in Advanced Wound Care.

The net financial expenses for 2024/2025 are expected at around minus DKK 750 million, mostly related to interest expenses from the financing of Atos Medical. Our effective tax rate for 2024/2025 is expected to be around 22%, but our long-term expectations for our tax rate of around 23% are unchanged. CapEx is expected to be around DKK 1.4 billion and includes investments related to the establishment of our new manufacturing site in Portugal. On net working capital, I expect the net working capital-to-sales ratio in 2024/2025 in line with our long-term expectations of around 24%.

With this, I hand it over to Kristian for final remarks. Please turn to slide number 10.

Kristian Villumsen

President & Chief Executive Officer, Coloplast A/S

Today, we announced that the board of directors have decided to expand the Coloplast executive leadership team with immediate effect. We're now entering the final year of our Strive25 strategy. In this strategic period, we've made significant investments to expand the reach of the company and build four growth platforms to drive value creation in the years to come. The decision to expand the Coloplast ELT was made to reflect this.

Our upcoming 2030 strategy will be focused on unfolding the potential of our Chronic Care, Voice and Respiratory Care, Advanced Wound Care, and Interventional Urology businesses to deliver profitable growth. This is the task in front of the new ELT, and the new strategy would be communicated in the late-summer of 2025. In the new setup, the Chronic Care commercial and innovation organization will be gathered under one leader, Nicolai Buhl, who is now Executive Vice President of Chronic Care.

Paul Marcun, previously leading our Chronic Care commercial organization, has decided to retire after a successful tenure at Coloplast. I'd like to take this opportunity to thank Paul for his commitment to our company throughout the last decade. He's been instrumental in delivering our Strive25 strategy and a valuable member of the ELT. The new ELT will include two new members, Caroline Vagner Rosenstand, leading Voice and Respiratory Care; and Tommy Johns, leading Interventional Urology. Caroline and Tommy are both respected and experienced Coloplast leaders, each in charge of one of our important growth platforms.

In this strategic period, we've also invested into becoming a bigger player in Advanced Wound Care in both dressings and biologics. There's a lot going on in both businesses. In our Advanced Wound Dressings business, we're focused on significantly improving profitability. With Kerecis, we're focused on delivering year two of our commercial plan and integrating the business on to Coloplast IT infrastructure. As a consequence, our Advanced Wound Care business will be represented in ELT once we've successfully concluded the ongoing work, and for now, both businesses will continue to report directly to me.

With this, I'd like to welcome the new members of the ELT and congratulate those that have a new responsibility. I look forward to starting the work on the 2030 strategy here in the autumn, and unfolding the potential of our business to deliver on our long-term guidance of 8% to 10% organic growth and an EBIT margin of above 30%. Finally, I'd like to say thank you to our more than 16,000 employees at Coloplast for their continued commitment and hard work this year. I'd also like to thank our users, our clinician partners and investors for their confidence in our company. Thank you very much.

Operator, we are now ready to take questions.

QUESTION AND ANSWER SECTION

Operator: We will now begin the question-and-answer session. [Operator Instructions] The first question comes from Hassan Al-Wakeel from Barclays. Please go ahead.

Hassan Al-Wakeel
Analyst, Barclays
Q

Hi. Good morning and thank you for taking my questions. I have three, please. So, firstly, can you talk about the stronger Interventional Urology business in Women's Health returning to growth in the quarters and the drivers beyond easing comps? What was the decline in Slings for the full year? Is double – is low-double-digit decline a reasonable assumption, and did this improve in Q4? And how are you thinking about the level of decline within the Slings business in 2024?

Kristian Villumsen
President & Chief Executive Officer, Coloplast A/S
A

Hassan, this sounds like a lot more than three questions. Yeah.

Hassan Al-Wakeel
Analyst, Barclays
Q

That's just the first. So, that's the first. Should we take that and then we go in turn?

Kristian Villumsen
President & Chief Executive Officer, Coloplast A/S
A

Yeah. So, we're pleased to see the 7% from Interventional Urology in Q4. Women's Health, particular just negative full year growth in Q4. I think partly we had favorable comps that was a lower baseline, to be fair. I am not expecting the competitive pressure to abate. I'm expecting it to continue into 2024/2025, and the expectation that you should have for the IU business going into next year should be mid-single-digits.

Hassan Al-Wakeel
Analyst, Barclays
Q

And within that, are you able to comment on the decline in Slings? Is low-double-digit, a reasonable assumption on my part?

Kristian Villumsen
President & Chief Executive Officer, Coloplast A/S
A

So, we're not commenting on the different product groups within Women's Health. You should just – you should have a base assumption for the total franchise of mid-single-digit.

Hassan Al-Wakeel
Analyst, Barclays
Q

Fair enough. And then, secondly, other companies in the space have talked about a deterioration of consumer sentiment in China this quarter. Appreciate you've had a softer China for some time, but are things getting worse? What is the trend in basket sizes and expectations for this into next year?

Kristian Villumsen
President & Chief Executive Officer, Coloplast A/S
A

Yeah. Good question. So, I'm not seeing a significant changes in the China business. We've delivered mid-single-digit this year and we're expecting mid-single-digit also into next year. If I look at the patient inflow to the business, it's stable and healthy, but the challenge really is in the consumer channel. I'm not really seeing any improvement, and like I've commented on in previous quarters, I'll get more optimistic when I can see it in the basket sizes and the product mix. So, for now, we're assuming no real change compared to this year and mid-single-digit growth from China next year, not a deterioration.

Hassan Al-Wakeel
Analyst, Barclays
Q

Perfect. And then, thirdly and finally, on margin guidance for next year, can you talk us through the confidence in driving 100 bps of margin expansion over the full year level of 27%, particularly given the lower jump off point in Q4 of 26%. Thank you.

Anders Lonning-Skovgaard
Chief Financial Officer & Executive Vice President, Coloplast A/S
A

Yeah. So, hello, Hassan. It's Anders. Let me take that one. So, we are guiding an EBIT margin of around 28% in 2024/2025. We are expecting improvements in our gross margin. So, the gross margin I'm expecting that to sit around 68%. It's basically driven by lower pressure on input costs. We are running a program to improve our Wound Care profitability and we expect that to contribute around 30 basis points on our EBIT – group EBIT margin. And then, we are expecting Kerecis underlying EBIT margin to improve and we are also expecting the underlying cost to – for the whole group to increase at a lower level than the top line. And then, finally, FX or foreign exchange rates, I'm expecting a neutral impact. So, those are some of the main drivers for us delivering an EBIT margin of around 28% for 2024/2025.

Hassan Al-Wakeel
Analyst, Barclays
Q

Perfect. Very helpful. Thank you.

Operator: The next question comes from Jack Reynolds-Clark, RBC. Please go ahead.

Jack Reynolds-Clark
Analyst, RBC Europe Ltd.
Q

Hi, there. Thanks for taking the questions. I just have two, please. So, just on the write-downs, could you comment on whether this is different from the write-downs you announced earlier in the year? And I also think you mentioned the write-downs earlier in the year wouldn't be going through the P&L. So, kind of what's changed here?

And then, just on Heylo, could you comment on how the launch is going in the UK and what the feedback is from the German authorities, and kind of what drove the delay in the launch there? Thanks.

Anders Lonning-Skovgaard
Chief Financial Officer & Executive Vice President, Coloplast A/S
A

So, hello, Jack. Let me take the first one around the write-downs. Yes. We had some write-downs of some assets that we included here in our fourth quarter as part of our operating expenses. So, it's just some machines that we have written down. Kristian?

Kristian Villumsen
President & Chief Executive Officer, Coloplast A/S

A

On – to your question on Heylo, Jack. So, we're now saying that launch in Germany is expected to be in the second half of 2025. The delay is really due to data requests from the authorities and the ongoing dialogue that we have with them. I'm reluctant to share details around it just for competitive reasons, but I am confident that based on this dialogue that we've got something here and that we are going to launch and that the product will be reimbursed.

To your question on impact in the UK, we are following plan. Remember, this is a new type of product. And so, we are expecting a slow ramp. We are hand-holding this launch and are doing lots of work also with the local payers to basically payback us for Heylo. You should assume no significant contribution in Strive25, it will only be following that.

Jack Reynolds-Clark
Analyst, RBC Europe Ltd.

Q

That's very clear. Thanks very much. So, just following-up on the write-down piece, I think I misspoke there. What I meant was around the reduction in the preferred considerations in the Kerecis acquisition. Yeah. Apologies.

Anders Lonning-Skovgaard
Chief Financial Officer & Executive Vice President, Coloplast A/S

A

Yeah. Sorry. I misunderstood you then. Yes. So, as you might recall, we agreed with the owners of Kerecis on an earnout and we reduced a part of that earnout after the first six months. And then, after the full year, we have evaluated the final part of the earnout, and as it is after the first 12 months in our ownership, it's going into our P&L. So, we reversed that and it's part of our special items.

Jack Reynolds-Clark
Analyst, RBC Europe Ltd.

Q

Okay. Thanks very much.

Anders Lonning-Skovgaard
Chief Financial Officer & Executive Vice President, Coloplast A/S

A

Okay. Thanks.

Operator: The next question comes from Martin Parkhøi, SEB. Please go ahead.

Martin Parkhøi
Analyst, Skandinaviska Enskilda Banken AB

Q

Yes. Martin Parkhøi, SEB. Also two questions from my side. Speaking to two new innovations there, Luja. I just wanted to understand, you mentioned in the report that it did have a significant contribution due to growth in Continence Care in the quarter. If we look at the data from the UK market, where it has not – so far this led to an expansion of your overall catheter market share in UK, of course, also coming from a very high base. But what have you seen on your overall catheter market share in other markets where Luja have been available?

And then, second question, just on the DKK 130 million special items in 2024/2025. Now, it's year number four, where you will book sales within – for Atos and you are still doing integration. At least from my side, it is taking somewhat more longer that I had anticipated going into when you first acquired this business. So, what is it exactly that you are still integrating in year four? And then, on the Advanced Wound Care, ex-Kerecis one-offs, you also now are taking – what are the – what will the return be compared to what the one-off costs that you will see in in the current fiscal year?

Kristian Villumsen
President & Chief Executive Officer, Coloplast A/S

A

Thanks, Martin. Why don't I get started with Luja. Just as a macro observation on the launch, it's the strongest launch we've done in Continence Care ever. So, if I look at the uptake per market, I look at the launch plans and how much ahead we are, I look at the cannibalization rates, it's doing very well. Of course, remember, this is a chronic category. So, the category turns over many years, but we are gaining good momentum. The full year growth of 8% is a testament to Luja basically contributing more in Q4, it's contributed more than it did in Q3. So, it's a gradual accelerator just like we have expected it to be.

It's also now we just have a male product in the market. The female rollout is – we're in the relatively early stages of that. We're in a handful of markets with female. Female is also getting a good traction. I'm seeing the same pattern in the launch curves and the same pattern in the cannibalization rate. So, overall, we are positive, and I'm expecting this brand and this platform to allow us to take share in the category and help expand the category. And I am looking at a – just if I look, I'd say, a good proxy is always to look at a 12 months trend and here definitely positive.

Anders Lonning-Skovgaard
Chief Financial Officer & Executive Vice President, Coloplast A/S

A

Yeah. So, Martin, let me take the second question around the special items. The special items include, as I said earlier, Atos integration and then our Wound Care profitability plan. And in terms of Atos, we are now moving into the third and final phase of the integration. We are actually just about to go live with the integration in Germany and that also includes utilization of our business in Poland, merging of warehouses, et cetera. And the final phase of the integration that's some of the main European markets and that will continue during this financial year.

And then, we are looking at our Wound Care profitability, and we are in this quarter working through that, and that will also drive, you can say, restructuring cost and I have included that in the special items as well. You should expect when we move into 2025/2026 that the level of special items will decrease significantly. That's my assumptions.

Martin Parkhøi
Analyst, Skandinaviska Enskilda Banken AB

Q

And how much this one-off charges you're taking in Wound Care, how much would that benefit on your margins on the other side? Because I guess you are expecting a return.

Anders Lonning-Skovgaard
Chief Financial Officer & Executive Vice President, Coloplast A/S

A

Yeah. So, what I said in my opening, we are expecting that the Wound Care plan will contribute around 30 basis points on our group margin. So, that's included in the margin guidance of around 28%.

Martin Parkhøi
Analyst, Skandinaviska Enskilda Banken AB

Q

Thank you.

Operator: The next question comes from Julien Dormois from Jefferies. Please go ahead.

Julien Dormois
Analyst, Jefferies GmbH (FR)

Q

Yeah. Hi. Good morning, Kristian. Good morning, Anders. Thanks for taking my questions. I have three, please. The first one relates to Kerecis. Based on your guidance for this fiscal year, I think you are guiding to something like 25% growth for the product, which is obviously a deceleration versus the 35% you posted last year. So, just wondering whether this is a cautious assumption ahead of the uncertainty stemming from the final LCD or just a normal process, because the product has gotten bigger, and obviously, it needs to see some deceleration in the underlying growth.

Second question relates to the changes on the leadership team you announced this morning. Surprisingly, there's only the Advanced Wound Care business that is not represented on the ELT at this point. You have said that you wait for further integration before doing so. So, just curious on how you envisage the integration and the two businesses, between Kerecis and Wound Care, working more closely going forward?

And the very last question, and sorry, if I missed the details on that one, but the one-off costs from the US distribution center, I missed the H1 impact that you're expecting versus the H2 impact that you just had.

Kristian Villumsen
President & Chief Executive Officer, Coloplast A/S

A

Thank you, Julien. Good questions. On Kerecis, our guidance is for 30% growth CAGR. We're confident about that. We're off to a good start trading here in October strong. So, I'm expecting another strong year and feel confident about the growth guidance. The guidance for group growth, of course, when we say 8% to 9%, it does reflect the uncertainty related to LCD. I remain confident that we will get on LCD, but in the event that that decision goes against us, we will be at the lower end of the growth guidance. But the business is trading well, doing well. We're expecting another strong year.

To your question on Advanced Wound Care, correct, for now, we're not – these businesses will continue to report to me directly. We have quite a bit of integration work happening with the Kerecis, a super important year two of the business plan, and like Anders talked to earlier, we're in the middle of a significant margin expansion program for the Wound Care business. Once that's done, I envisage that the Advanced Wound Care business will also be on the ELT, and exactly how that's going to look, I'll be clear about that when we announce it.

Anders Lonning-Skovgaard
Chief Financial Officer & Executive Vice President, Coloplast A/S

A

And then, the final question related to the costs for the US distribution. So, as we talked about earlier, we included last year around DKK 60 million in extra costs, and I expect we will run with some extra costs here in Q1 and Q2 at the level of DKK 30 million extra. That's my assumption. And then, we will have a normalized situation from Q3 and onwards.

Julien Dormois
Analyst, Jefferies GmbH (FR)

Q

Thank you very much. Just as a follow-up, the DKK 30 million, is that in both Q1 and Q2 or is that the amount for H1?

Anders Lonning-Skovgaard
Chief Financial Officer & Executive Vice President, Coloplast A/S

A

That's my assumption for H1.

Julien Dormois
Analyst, Jefferies GmbH (FR)

Q

Okay. Thank you very much.

Operator: The next question comes from Aisyah Noor from Morgan Stanley. Please go ahead.

Aisyah Noor
Analyst, Morgan Stanley & Co. International Plc

Q

Good morning. Thanks for taking my question. My first one is similar to the one prior, so on the new executive leadership team. So, what triggered this expansion of the team, and could you elaborate some of the near-term strategic priorities for the newly appointed members?

And then, my second question, also kind of a follow-up on to a previous question. Do you have a sense of how prescription behaviors are trending in anticipation of the LCD outcome, i.e., are clinicians holding back from starting new patients on any excluded products ahead of this LCD taking effect or are you seeing any shift in market dynamics, marketing from your competitors, et cetera? Thank you.

Kristian Villumsen
President & Chief Executive Officer, Coloplast A/S

A

Thank you for your question, Aisyah. So, the change is really reflecting the big movement that we have begun with Coloplast toward building four growth platforms. We are coming to the end of the Strive25 period. We are commencing the new strategy work. And so, it's – we feel it's natural at this stage that we also reflect that strategic direction. I already commented on the timing related to Advanced Wound Care. So, that will also be reflected in the structure. It's just not now.

To your question on what will be priorities. It's very much around unfolding the – if you will, the potential in each of the platforms. So, for Atos, it is delivering the growth plan that we have for the business. On Urology, it will be very much about the entry into the overactive bladder segment. And of course, for Wound Care, the core growth driver in the coming strategic period will be the Kerecis platform. So, all good, but reflecting the end – the near-term end of the strategic period and the beginning of the strategy work for the next period.

To your question on prescription behavior, it doesn't really – we're not really seeing material impact. We are anecdotally, there are some customers that are reluctant to initiate. But for the customers that we're already serving in the community setting, we're really not seeing – we're not seeing impact. Just to remind everybody on LCD and the scope of it, it is roughly 20% of our sales that could be impacted by this. We are still confident that the final policy will include our products and we are still expecting to get a final policy at the end of this calendar year. But so far, we – as you know, there's no conclusion. I hope that answers your questions.

Aisyah Noor
Analyst, Morgan Stanley & Co. International Plc
Q

It does. Thank you so much.

Operator: The next question comes from Oliver Metzger, ODDO. Please go ahead.

Oliver Metzger
Analyst, ODDO BHF AG
Q

Good morning. Thanks for taking my questions. The first one is on your organic growth guidance. So, now Kerecis is included and you saw recently even a notch higher organic growth, what you said. Your midterm guidance stands at 8% to 10%, and basically now your 2024/2025 guidance is in the lower half. So, is it fair to assume...

Kristian Villumsen
President & Chief Executive Officer, Coloplast A/S
A

Oliver, you're dropping out.

Operator: Sorry. We lost the participant. We'll go with the next one. Mattias Häggblom, Handelsbanken. Please go ahead.

Mattias Häggblom
Analyst, Svenska Handelsbanken AB
Q

Thanks so much for taking my questions. I have two, please. So, it wasn't really clear to me for the rationale behind the reversion of the remaining earnout consideration in connection with the Kerecis transaction. So, is growth no longer expected to be at the pace it previously was expected to be at or is profitability not expected to improve at the previous anticipated pace? What changed, I guess, is the question.

And then, secondly, on the net financial cost, which came in at a significantly higher level than anticipated, partly driven by negative impact from FX, can we quantify that impact to tease out down the line, please? Thanks so much.

Kristian Villumsen
President & Chief Executive Officer, Coloplast A/S
A

Yeah. So, Mattias, let me take your two questions. So, thanks. So, when we decided on the acquisition of Kerecis, we also agreed with the owners on an earnout, and that earnout was based on a management case that was significantly higher in terms of especially growth and margin. And throughout our 2023/2024, we have evaluated those KPIs versus the underlying momentum, and we reduced the earnout as part of the goodwill after the first six months. And here at the full year, we evaluated again, and here we reduced the remaining earnout and that went into special items in our P&L. So, that's the background for the earnout reduction.

And then, the other question related to our financial items. So, the majority of our financial items that is related to interest expenses in relation with the debt we have after the Atos acquisition, and it also includes FX and balance sheet items, especially coming from the Argentinian peso in our first quarter of last year. And when I look into the coming year, I'm looking at financial expenses in the level of around DKK 750 million and it's primarily related to interest rate expenses related to the debt. So, that's my assumption for 2024/2025. I hope that answers your questions.

Mattias Häggblom
Analyst, Svenska Handelsbanken AB

Q

Yeah. Sure. That's very helpful. Just one quick follow-up, a point of clarification possibly. So, I'm looking at the company compiled consensus for net financial for the fourth quarter, it was DKK 224 million in the fourth quarter and it came out significantly above. So, there's nothing you want to call out that was extraordinary in the fourth quarter that help us understand the underlying pace?

Kristian Villumsen
President & Chief Executive Officer, Coloplast A/S

A

There was in the fourth quarter a more negative impact from especially the US dollar that impacted us more than I expected when I gave, you can say, the soft view mid-August.

Mattias Häggblom
Analyst, Svenska Handelsbanken AB

Q

That's very clear. Thanks so much.

Operator: We have again Mr. Metzger in line. So, please go ahead, Oliver.

Oliver Metzger
Analyst, ODDO BHF AG

Q

Hi. Good morning. I apologize for being disrupted. So, my first question is on your organic growth guidance. Now, Kerecis included and you have seen at least a better recent performance than initially planned. Your midterm guidance stands at 8% to 10% and the 2024/2025 guidance is basically in the lower half. So, is it fair to assume that [indiscernible] (00:51:15) mid-single-digit growth in China and the more challenging situation in Women's Health which hold back your current performance, not of being a notch higher compared to the midterm guidance or have I missed any meaningful moving part?

The second question is just on the same question, your 4% organic growth for Advanced Wound Dressings. Does this number include any contribution from Kerecis or is this rate linked to only dressings in isolation? That's it from my side. Thank you.

Kristian Villumsen
President & Chief Executive Officer, Coloplast A/S

A

Well, thanks, Mattias (sic) [Oliver] (00:51:47). I mean – so, really, when you think of China and IU in this equation, of course, I mean they are a drag on group growth, but they also were in the year that we just closed. So, the 8% to 9% guidance, essentially, the lower end of that reflects the event where we don't get on LCD. I am expecting the group to accelerate and – compared to this year as we get the full impact from Kerecis. But the low end would reflect the event that we don't get back on LCD.

To your question on Advanced Wound Care, the number that you see basically is just dressings, and remember that, there was a bit of phasing in the dressings business. We had a very strong Q3 where we had price hikes in Germany in Q3, which led to higher demand in Q3 at a bit of expense of Q4. If you just look at the full year, the business has done well. And so, the Advanced Wound Care number for the year includes just one months of impact from Kerecis.

Oliver Metzger
Analyst, ODDO BHF AG

Q

Okay. That's helpful. Thank you.

Operator: The next question comes from Doyle, Graham from UBS. Please go ahead.

Graham Doyle
Analyst, UBS AG (London Branch)

Q

Good morning, guys. Thank you for taking my question. Just one for me. Just when we look at the guidance, I'm kind of thinking the assumptions that are put in there. So, it sounds like the margin is probably more backend-loaded, you've got China returning to modest growth, and then the LCD is included within that as well. So, just thinking more, where do you think – those are the headwind – potential headwinds for me, given where we are today, but where do you think the kind of upsides are in this guidance or where do you feel maybe you've been quite cautious and there could be some upside to that numbers? Thank you.

Kristian Villumsen
President & Chief Executive Officer, Coloplast A/S

A

So, I think the items you listed are drag to group growth right now are China, Chronic, it is the Interventional Urology business primarily. And then, of course, on the positive side, we've got momentum from Europe and the impact of innovation on the growth in Europe. It is Kerecis. And in an event where we do get on LCD in a favorable manner, where that list has reduced, you could expect that that could have a positive impact on performance. And then, of course, I am expecting the US business to return to stronger growth in this year as we get fully out of the distribution issues that we've had. But exactly how that pans out, we've lost some customers in this process. On the other hand, we're launching a number of new products. But we feel confident that the business will accelerate compared to this year. So, on the accelerator side, it really is a story of innovation, the return growth profile for US and Kerecis.

Graham Doyle
Analyst, UBS AG (London Branch)

Q

And maybe just to follow-up on Kerecis then, the 35% growth pretty much every quarter, it seems like clockwork. What's the visibility in this business and how much of your guidance for next year relies on the LCD coming through?

Kristian Villumsen
President & Chief Executive Officer, Coloplast A/S

A

Well, so you could say, the math works that if you continue at the same growth level, of course, Kerecis will add a growth point to the group. The lower end of the guidance that we have for next year reflects a decision where Coloplast is not admitted to LCD and we have 20% exposure of total Kerecis revenue. So, we have it in there to basically be able to, if you will, stomach that event. I'll reiterate my – I am confident that we're going to be on the final policy, but I don't know exactly how that final policy is going to work out. There is a reasonable visibility in the business. We run weekly revenue calls on the business. We understand the commercial activity down to the rep level and have good visibility on the sales pipeline. So, I'd say relatively good visibility.

Graham Doyle
Analyst, UBS AG (London Branch)

Q

Okay. Thank you very much. Appreciate it.

Operator: The next question comes from Giang Nguyen from Citi. Please go ahead.

Giang H. Nguyen
Analyst, Citigroup Global Markets Ltd.

Q

Hey. Good morning, guys. I just have one question on Luja female. What key markets had it not been launched so far? And also, in the five markets where it was already launched, how did you find [ph] attach rate at launch (00:56:53) compared to the male product, and what kind of pricing premium have you managed to secure on these female products? Thank you.

Kristian Villumsen
President & Chief Executive Officer, Coloplast A/S

A

So, there are a number of very significant markets that still need to get Luja female, some of the large markets in the portfolio, UK, US, Germany. And if you think of premiums on the product, you should assume mid-single-digit premiums compared to the product that it replaces. The five markets where it's already launched, we're ahead of plan – ahead of launch plans, and like I said earlier, the cannibalization rates that we're seeing on both the male and the female product are lower than what we had anticipated. So, early days, but promising.

Operator: The next question comes from Anchal Verma, JPMorgan. Please go ahead.

Anchal Verma
Analyst, JPMorgan Securities Plc

Q

Hi. Good morning. I have two questions, please. The first one is just thinking about your midterm guide. Given your FY 2025 guidance is for 28%, what is your timeline to achieving the 30-percent-plus margins? How should – is there any change to your midterm guide?

And then, the second one is on pricing. Can you quantify pricing contribution for FY 2024 and how should – and what are your expectations for next year?

Anders Lonning-Skovgaard
Chief Financial Officer & Executive Vice President, Coloplast A/S

A

Let me take your questions here. So, in terms of our long-term guidance of delivering 8% to 10% organic growth and improve our EBIT margin to 30%. So, we have not – on the margin side, we have not given a specific year. So, it will be into the next strategic period, towards 2030. But we are still committed and we are still aiming at getting back to the 30% EBIT margin levels.

In terms of pricing, are you speaking to our prices towards the customers or the raw material prices?

Anchal Verma
Analyst, JPMorgan Securities Plc

Q

Your prices.

Anders Lonning-Skovgaard
Chief Financial Officer & Executive Vice President, Coloplast A/S

A

So, our prices. Yeah. So, over the last couple of years, we have actually been able to increase prices across a number of our businesses, and we saw that last year, and I'm also expecting that will continue in 2024/2025, but at a lower level. But we will see price increases across some of our franchises in the US. We will see some price increases in Emerging markets, Chronic Care, and we will also see some price increases here in Europe. So, especially, in the UK, where there is a yearly price increase. So, we are expecting price increases, but not at the levels we have seen in the last financial year, and this is still under the assumption, we are not having any bigger healthcare reforms.

Anchal Verma
Analyst, JPMorgan Securities Plc

Q

Perfect. Thank you.

Operator: Ladies and gentlemen, that was the last question. I would like to turn the conference back over to Kristian Villumsen for any closing remarks. Thank you.

Kristian Villumsen
President & Chief Executive Officer, Coloplast A/S

Thank you, everybody, for all your questions and interest in the company. Anders and I will be on the road over the coming days and weeks, and we look forward to connecting directly with all of you.

Operator: Ladies and gentlemen, the conference is now over. Thank you for choosing Chorus Call and thank you for participating in the conference. You may now disconnect your lines. Goodbye.