Coloplast
Wednesday, 3rd November 2010
14:00 Hrs UK time

Chaired by Lars Rasmussen

Lars Rasmussen

Good afternoon and welcome to this Full Year 2009/10 conference call. I'm Lars Rasmussen CEO of Coloplast. I'm joined by CFO Lene Skole and the IR Team. As usual, we have scheduled about an hour for the call; Lena and I will start with a short presentation and then we will open up for questions. Please turn to slide number three.

I am very proud of what we have achieved this year; in particular, I am proud of the fact that we have reached our long term targets well ahead of the deadline we set for ourselves. Our growth remains strong and our EBIT margin has improved throughout the year. We realised a 7% growth organically and 8% in Danish Kroner, driven in particular by the improved growth rates in Ostomy care. Our growth was in line with our guidance to the market.

We can report a very solid improvement of our gross margin, driven by the transfer of production and efficiency improvements, and we can report an EBIT margin of 21% for the year and 23% for the Quarter. We propose a 10 Kroner per share dividend, which corresponds to a pay-out ratio of 34%, which is in line with last year where the dividend was 7 Kroner per share. Our guidance for 2010/11 is a growth rate of 6-8%, both organically and in Danish Kroner and an EBIT margin in the range of 23-25%.

As we have our reached our long term targets, we are providing the market with a new long term ambition. We have chosen an ambition, that we have completed the turnaround of Coloplast, but that we have not in any way finished the transformation of Coloplast. Our ambition is to grow our top line more than the market and to deliver EBIT margins which are in line with the best performing listed medical device companies. We find this guidance to be ambitious but realistic. Lene will provide more details/comments on the guidance for 2010/11 as well as the ambition later on. But now please turn to slide number four.

In Danish Kroner, revenues were up by 8% to 9.5 billion Kroner and the organic growth was 7% in line with guidance. Within Ostomy care we saw a very satisfying organic sales growth of 7%. The biggest growth driver in this business segment continues to be the SenSura product line. In Urology and Incontinence care, organic growth was 9%. Growth was driven by () catheters, especially SpeediCath in Europe and Self-Cath in the US. Also Peristeen performed well over the year.

In the Quarter, we have launched a new urine bag called Conveen Active with focus on men with light incontinence. As mentioned at our Capital Markets Events, we will launch a new male compact catheter Speedi and Compact Male in January next year. Speedi and Compact Male is being pre-launched as we speak and reception so far is very good. I look forward to telling you more about this product later on. The US and European Urology business, saw a satisfying performance, despite a continued trend towards mini-slings. Our own mini-sling Altis, is now commercially launched in Canada, with very good feedback and we look forward to an introduction later on in the US.

Just last week we acquired Empathy Medical Devices. This company fits well within our existing surgical Urology business and confirms our commitment to the Urology business.

Within our Wound and Skin Care business, organic growth remains flat. We are ending the restructuring of our Wound Care business and our community focused sales staff is beginning to work the market. Therefore, we expect growth to slowly increase from now on.

If we look at the regions, the European sales ended at 5% organic growth. We were satisfied with the sales in both Ostomy and Incontinence care, whereas the Wound Care business impacted region's growth negatively.

Organic revenue in The Americas, went up by 12% and we saw satisfactory growth in the US, but also in Argentina and Brazil. Also Argentina and Brazil are impacting growth positively.

Finally, revenues in the rest of the world, improved by 12% organically. The trend has increased again, especially driven by good growth from China and Japan.

That concludes my part of the presentation. Lene will now provide more details on the Financials, so please turn to slide number five.

Lene Skole

Thank you Lars. Gross profit amounted to DKK5.8 billion, which is equal to a gross margin of 61%. This is an improvement of three percentage points, compared to the same period last year. Increased efficiency in the production economy continues to drive the positive gross margin development. The gross margin in Q4 was impacted by the final DKK27 million costs related to the closure of the factory in Vadnais Heights USA. The costs include a write-down of machines as the production set up in China will be based on significantly less automation than is the case in Vadnais Heights.

The SGA to sales ratio improved by two percentage points compared with last year and ended up at 35% of sales. The improved SGA to sales ratio is a result of our sales force optimisation programmes, as well as our continued focus on savings and efficiencies. In Q4 we included with our () costs of DKK25 million , related to the organisational change in our subsidiaries, which we elaborated on at our Capital Market Event last month.

The R&D to sales, came in at 4% in line with previous estimates. This results in a reported EBIT margin of 21%, adjusted for special items, the EBIT margin was 22%. We report special items of DKK83 million for 2009/10. These are all severance payments in connection with the transfer of production to Hungary and China. We still expect redundancy costs of around DKK20 million next financial year, but we will contain these in the gross margin. The level of redundancy costs, as well as write-down of machines, reflect the fact that we have invested in further transfers of production, as well as in other efficiencies in the restructuring and we have done so at the same time as we have improved our EBIT margin. Net interest bearing debt to EBITDA ended at 0.6, slightly lower than the last Quarter and our net debt to EBITDA target range, remains suspended.

Capex amount to DKK309 million, corresponding to a capex to sales ratio of only 3%. Return on investment capital as a tax, was 23% up from 8% last year and in line with the last Quarter. Finally, the free cash flow was only 1.5 billion compared with 1.4 billion last year. Earnings were stronger and capex was lower, whereas changes in net working capital impacted negatively this year. Free cash flow to sales is 15.5 and slightly lower than last year, which is due to the fact that last year saw a cash inflow from the sale of property and from a significant reduction of working capital.

Now please turn to slide six.

For 2010/11 we expect growth of 6-8% organically and in Danish Kroner. The underlying assumption is that we expect current performance to continue for 2010/11 with the existing price pressure unchanged. For 2010/11 we expect an EBIT margin in the range of 23-25% in fixed currencies as well as in Danish Kroner. As you can see, we expect 2010/11 to have a significant uplift in performance. A key driver for the improvement is that we are almost at the end of the transfer of production and this means considerably lower trends per cost, as well as higher cost impact from transfers already completed.

We expect our capex for 2010/11 to be between DKK300-400 million, almost in line with last year. Finally, our effective tax rate is expected to remain around 26%. Empathy Medical Devices is expected to realise around DKK25 million in revenue for its fiscal year 2010 and is therefore expected to have limited impact on Group revenues for 10/11. Integration costs will also be minor and we do not expect the acquisition to have any impact on Group EBIT.

As Lars mentioned, our long term ambition is to grow more than the market and to deliver profitability that is empower the best performing medical device company. It's no coincidence that we call it an ambition and that it has no specific timeline. Coloplast has completed a two year long turnaround. During this turnaround it made good sense to have an absolute EBIT margin target to strive for and we chose a target that was comparable with other Medicare(?) companies and that was backed by specific profit improvement plans.

Now that we have reached this target, we are ready to be measured against the best performers in the medical device universe. Therefore, if the new ambition is set as an ambition relative to the other players in the market. Our new ambition sends a message to the market that there is still more to come in terms of improving the performance of the company. You already know the key elements, as we presented them at our recent capital market dinner. They include continued sales growth and further reduction of manufacturing costs, continued improvement of sales force efficiency, further optimisation of our support functions.

In order to add transparency to the ambition, we have selected the peer group listed in our full year release on page seven. This group contains listed names familiar to most of you and we will track our performance against this group.

Summing up 2009/10, we are very happy with and confident in the performance of the company. We can see satisfying performance in most markets and countries, which we believe builds a stable base for future performance.

This concludes our presentation, so thank you very much and operator we are now ready to take questions.

Questions and Answers

Klaus Madsen – Handelsbank

Congratulations on the strong margin improvement. First on the guidance for 2010/11 given your exit rate on the various cost items in Q4. It does seem striking that you serve a two percentage point band on guidance. Could you comment on why you do this and what kind of cushion you aim to build into guidance? On the longer term guidance, could you elaborate on the balance between the expected margin expansion from the cost of goods sold line and the various elements of operating costs, whether we will see a more balanced expansion from both item or it's primarily one or the other that's driving your further potential? Finally, specifically on the cost side, could you comment on the specific projects and potential from the reduction of SKUs, reduction of waste, and finally the other sort of efficiency gains that you drive out of your manufacturing set up, now that relocation is nearing completion?

Lene Skole

Thank you Klaus, that was an awful lot of questions at one time. If we start with the guidance from 10/11. Yes that is unusual for us to guide in a range like that, we don't normally do that. We have done so, because we want to be able to work with a range, because we also want to be able to take initiatives if they come up during the year that can improve growth or otherwise. So instead of having a situation where we every Quarter, go out and adjust slightly, then we've simply decided to run with a range. It is not the intention to build a cushion in, I think that was the word you used and that's certainly not the intention, it's simply for us to have a range and have the freedom within that range.

With regards to our longer term guidance, I can't really or I can't give you specifically where we are going to improve. You know the things that we are working on, which is to reduce manufacturing costs and improve say for efficiency and optimise our support functions. We will continue to do that. I can't say exactly how much and where. What will be important for us from now on is that we run our company in a way where we can actually measure ourselves against the best medical device companies.

I think there was a question of cost of goods sold, did you signal that you want to take that Lars or should I just continue?

Lars Rasmussen

I think that you took part of it already. I think it's a very difficult question to answer on without being very specific, because we have a host of products running to reduce costs in the manufacturing. But I think that we mentioned last time that we met that the upside or the savings that we showed last year on the manufacturing side, half of those savings came from the move out of manufacturing; the other half actually came from efficiency improvements in the already installed base of manufacturing.

Of course that will also level off at some point in time because we haven't spent much time on improving on our manufacturing, when we…what we have in Hungary for example, because we have been so busy moving out. But there's a lot to do still we think and apart from what I already talked about, just your efficiency projects, we are working very diligently with the sourcing of the materials. () sales we are working on SKU reductions still, which also of course gives a set back on the top line, but is very, very healthy for the bottom line and I guess that's really sort of the answer to it, because there's no simple answer to it, there are so many different projects in the year, at all point or at any point in time.

Okay, thank you. Then just one follow-up on the capex level you are indicating for the long term 4-5%. Is that assuming that you incrementally build out the manufacturing sites you have already today in China and Hungary respectively, whenever you need to add capacity?

Lene Skole

Yes, that is what it assumes.

Okay, thank you.

Karl Bradshaw – Morgan Stanley

I have three questions, thanks for taking them. So the first one relates to your strategy for increasing market share in Ostomy in the US. I know you talked about winning additional distributor contracts. I was just wondering if we'd seen any large contracts come up for renewal in the near term and how successful you'd been in that? Secondly, you mentioned some negative growth in your Aris sling in the US. I was just wondering if you believe that the Empathy products, when you begin to sell them, will be able to offset that, or whether you will have to wait for launch of Altis in the US and if you can maybe update us on timings, as to when that might happen? Then thirdly, I'm just trying to make sense of your guidance for 23-25% EBIT margins, but maybe I'm missing it; but maybe you can simplify it and just give us the main drivers that you see that give you that variability between the 23% and the 25%? Thanks very much.

On the market share in Ostomy, we are in a situation where we are winning market shares in more or less every country that we service. That counts for markets where we have a high market share and it also counts for markets where we have a lower market share, like in the US. So we are not in a situation where we need to succeed in the US in order to grow our market share in the Ostomy field as such. But of course, when you are talking about US, we also touched upon last time, that it's important for us that we do in contracts. It is of course a longer term project that we are working on and we thought that part of us being able to win more contracts going forward is that we have the Continence Care in place. It is in place now and we actually have thousands of professionals signing off for it, so I think that we have everything in place for it. But I don't have any comments to whether there are specific contracts.

Lene Skole

With regards to our range; first of all I think it is important to say that we actually want a broad range. It is not as much impacted by the question I think that we feel we need to have a source, we want to have a broader range. Just to give you some of the building blocks and I am sure you already know a lot of them; we see the one-off special items that is 83 million that we had last year. We don't see those coming again this year. We saw the 60 million within the gross margin related to the transfer of production from US to China, and we have also got 25 million in () in connection with the reorganisations that were done in the sales subsidiaries, and there are other few bits and pieces, but these are really the main things that you can say that won't come back again next year. Then of course on the top line we have taken into account full year affect of the UK Healthcare reform of the lower prices on products in France and also the reduction of prices that we got in Spain. This is just to give you some of the elements, and then as I said we want to have that broader range, because we want also to have the possibility to invest in sales activities as and when we see them.

Lars Rasmussen

You also had a question regarding the Altis product. The Altis product has now been launched in Canada. We saw recently a number of implants being performed and they were very, very successful, so we're now waiting to be able to launch that product in the US and () for that. But the mini-sling that we have gotten in the acquisition of Mpathy, we do not consider that to be better than Altis, actually vice versa, we think Altis is a fantastic product. But what we have got with Mpathy is a fantastic mesh, the lightest in the market and we have also gotten a patent portfolio which is very, very helpful for us going forward and developing new mini-sling technologies.

That is great. Just a quick follow on, on the Altis technology. Clearly the mesh that Mpathy have is very, very good. What are the possibilities and are you already doing this in terms of combining that mesh with your Altis filing with the FDA? What is the procedure for that and how should we think about timings if you decide to go down that route?

That is a very detailed question for me at this point in time. I can't answer you straight from the heart here.

So we shouldn't expect a launch of Altis in the US in the next couple of years then?

That is a very good question. I am afraid in a situation where I start to promise something which I cannot stand in for, so I need to be more certain of the probabilities before I say something about it.

Y-Dan Wang – Deutsche Bank

Thank you very much it is Y-Dan Wang from Deutsche Bank. Just a few questions. The first one I guess it is a follow on on the Mpathy question. Lars can you give us a sense of how big is the market for mini-slings and prolapse products are currently and how fast they're growing at. Obviously you didn't have share of that market prior to the Mpathy *acquisition. Secondly the Mpathy products, are they actually on sale in the US or are the revenues primarily generated from markets outside US. The second question is; should we expect any exceptional costs in the coming fiscal year that you would actually be included in your reported numbers and any that you would actually strip out for us to see? The third question is actually quite an easy one; other financial expenses Lene, how should we think about that for the coming year.*

Lene Skole

Maybe I can start; I will just start with the other financial expenses. In other financial expenses we report the mark-to-market number for our share options that are cash based. This is a way of providing options to our employees that we did away with a couple of years back. There are still some outstanding and they will run out finally in 2013. As long as they're there it is really difficult to see how much this line will move, because whenever the share price goes up as it has done today, then we will get a negative in the financial items and the other way around. Just as a rule-of-thumb, every time the share price increases by 10 Krone, we will have an impact of 2 million on that line. Of course that will depend on how many will be exercised during the year, but that is the rule-of-thumb. That is to just to give you at least some colour on why this other financial things looks sometimes very volatile.

You also asked about the exceptional cost. First of all there will not be a line for special items in the year that we are in now. We will have 20 million related to the final transfer of production and that will be taken under the gross margin. There will be potentially a very small amount, but I think that is almost a very small amount actually that could come further from the restructuring in the sales hubs, but yes, the absolute majority of that has been taken this year.

Lars Rasmussen

Coming back to your question regarding Mpathy. First of all the Mpathy sales are in the US market only. When we are talking about the different markets that we are attacking here, you could say that you could take it as a total, then the US market is approximately $400 million, and the European market is approximately 186. If you look at the SenSura incontinence part of it, the US market is approximately 200 million with quite solid growth, above 10% and Europe is around half, maybe with a little less, one-third with a growth which is around 10%. Pelvic Floor Repair is around 150 million in the US, with a growth which is a little lower than 10%, and in Europe it is approximately 100 million with a growth which is closer to 20%. Those are the markets that we’re looking into.

The Mpathy products, both of those products are available for sale in the US, so you actually have a mini-sling available now?

Yes we have.

Okay great. While you were answering I thought of a couple of more questions, so I will take the liberty of asking them. Can you educate us a bit on the US Ostomy market in terms of the different channels that you could actually get sales from, and which of these channels you're actually active in and which are the channels you still need to build presence in? Then the last question would be; your definition of long term historically has *been three to five years. what sort of timeline – I know you're not giving an exact time on how you could get to the top, what time you would get to the top end of the range of the companies that you have listed, but some comment on your definition of long term. Is it three to five year or is more of a five to ten that we should be considering?*

On the Ostomy market in the US, first of all the first part you should think about is the TPO contract. You're in hospital. Actually we do not have a single large TPO contract in hospital in the US. Here it is all about how the distribution is able to help us out, because we know there is quite some switching taking place where people are not satisfied with the product. When they're transferred from the hospital to their homes, so that is why we are looking at the distribution level, and of course the closer we can get to the customers with the distribution the better. Distribution companies that have direct access to end-users are our preferred platform in the US. That is also what we're working on.

With regards to the ambition, it is actually – as Lene mentioned – it is an ambition which does not have a specific timeline. It is our ambition after a period of time of course to be in a situation where we are measuring out of () and medical device companies in the world. Could that be three to five years before we are there? Yes that is probably a very good timeframe to look at.

Can you give us – I did say that was the last question but one still came into mind again – can you give us some sense of what you need to achieve to hit that ambition? Is it a matter of accelerating your top line to levels that are slightly faster than here? So double digit growth maybe?

Actually we talked in detail about that on our recent Capital Market event, and it was a pity that you did not participate because then you would have a…

I know it clashed. You guys need to sort out the timing of those things, so we can actually attend.

But the situation is that on the growth side we actually what we call a bigger, bolder and better product initiative, which is a very comprehensive innovation initiative that I would like to describe to you in detail at a different point in time. We do of course do a lot to win in our co-markets, being Ostomy and Continence Care. However we are investing heavily also now in getting sales back in UK(?). We have done a lot in our sales subsidiaries, we have actually reduced a number of management layers there to be much closer to the customers, and we have a number of sales excellence activities running.

At the same time we haven't at all exhausted the cost containment agenda. There are still a number of things that we can do on all the costs in the company, and still also on the production cost side, then we are running a project specifically on pricing excellence. That is basically the macro-level of things that we are doing.

Thank you very much. Congratulations for a very good set of results.

Ed Ridley Day – Bank of America

Hi thank you, and again congratulations on a great quarter. It is Ed Ridley Day from Bank of America Merrill Lynch. Firstly on your guidance; just a little bit more detail. I *just wanted to bring this out. you have given this interesting group of competitors, I just wanted to confirm that you aim to achieve margins in line with the best amongst that group, not the group on average. That would be my first question. Secondly obviously very strong growth in China and Asia. Could you provide a little bit more detail on your Chinese business; the approximate size perhaps of your Chinese operations and what particularly drove the growth you see in the last couple of quarters? You also mentioned Japan which is interesting, because of course other med-tech companies are not doing so well in Japan right now. If we could start with those questions please.*

Lene Skole

If we start with you say the guidance and competitors and our ambition, I think you should see that the ambition it doesn't have that many of our direct competitors, because most of those if you think () Hollister and so on and so forth, they don't actually give out numbers that we can follow, and we felt that we had a peer group. We have to have a peer group where at least we could follow the numbers, so they had to be a listed company. I don't think that that makes it any easier for us. on the contrary, it will probably make it a little bit more difficult for us, but we have tried to pick a peer group where we can see the numbers, and we have tried to pick a peer group that when we compare to your and your colleagues various analyses then you can recognise that as being a reasonable peer group.

Your specific question then was just to get a confirmation on whether our ambition was to be just the average of that group or be among the best in the group. It is to be among the best in the group.

Lars Rasmussen

Then talking about China and Japan; China that is just pure raw growth. We do invest heavily in China. We are market leaders in China in Ostomy, but it is a fast growing market and we are growing well above the market. We have employed many sales rep in China last year alone, so the year before. We do however see profitable growth in the country, but still it is a very, very healthy growth process in there. Japan, we have a growth which comes with the aging population, what we do also have some stock adjustments that are making us look more favourable this year than the real underlying growth is.

That's very helpful. Just a very quick follow up on some the questions that have been asked on the Continence Care market in the US. Could you give us an idea of where you see market growth in US Continence Care just in the last couple of quarters and how you feel you compare to that. Maybe marry that with your comments about the market slowing slightly in recent quarters?

We said we see that the market growth is selling(?) off.

Your growth in the US Continence Care market?

Don't give that specifically because as Lene said, we do not have any of our competitors who are obviously listed and we don't want to be a situation where we're the only one showing the numbers, but with the market growth in the US, in this segment, will start to increase(?).

Fair enough, thanks very much.

Martin Parkhoi – Danske Bank

Hello, I also have a few questions and it is a few questions. Firstly in respect to the market growth, you say you want to grow above the market and I remember one year back or two years back you took down your expectation for the market from 6 top 5%. What are your views on to cover this long-term ambition? Where do we see the areas for the markets you are in? Then, secondly, the guidance for next year includes organic growth rates of 2 to 6%. Last year you said 6 to 7% so are slightly more positive on your growth now. Is that solely driven by the slow pick-up you expect to see in the Wound Care business?

The market growth we report or that we talk about is about 5%, so we don't see any changes to that and that is a combination of a little lower growth in Ostomy Care and a slightly growth in both Continence Care and Wound care. The optimism that we're looking at for next year, as you said, going from 6 to 8% instead of 6 to 7 is very much how we define the fact that we expect to see Wound care growing. If you look at the Ostomy business, it is now growing north of 7%. That is almost double since 2 years ago and is almost normal how the market is growing. If you're looking at the Continence Care we around 9% there. So can we keep it there and maybe just improve it a little bit, I think that we are very happy with that. Of course we'd like to see more, but we'd dare to bank on it and so what you see is really from the Wound care.

Alright thank you.

David Adlington – J.P. Morgan.

Afternoon, it's David Adlington, J.P. Morgan thanks for taking the questions. Firstly the peer group you've given is quite a wide range of margins, I've calculated 15 up to low 30s. I just wanted to think about, just confirm that you're getting us to think about margins in the high 20s or possibly even in the low 30s. Secondly a more holistic question, what do you think the outline for margins within that peer group is? Do you think they're going to be trending up, down or sideways of the next 3 to 5 years? Finally, just what are your assumptions on pricing pressure within that long-term guidance?

David, thank you for that question. You are right. If you look at the actual reported numbers for the peer group, yes there is a wide range. As I mentioned earlier on, we want to be at the top of the range and I can also understand why you asked "where do we see them going? What are our expectations?" I can't give you numbers for that and I don't want to, because I think really the key of our long-term guidance is that we want to be among the best earners in that group, no matter where they're going. Then you had a final question, which I seemed to have forgotten right now. What was that and when…?

I jus wondered what your assumptions were on pricing pressure. You think it's going to be the same?

Yes, that's right pricing pressure. Yes, when we look at historically what has happened and if we look at our guidance for this year then we see about a percentage point or something like that in pricing pressure. We have () essentially saying that that should change one way or the other.

Thank you.

Scott Bardo – Baronberg

Yes, thanks very much for taking my questions and congratulations on a good set of results. I have a few questions. Firstly, not surprisingly on your peers margin comparison here, just wondered if you can help me understand. Is it aspiration also inclusive of any potential acquisition you might make or whether this is purely an organic driven aspiration. Secondly, on that point, a lot of the companies within this peer group are actually investing to support their top line growth, maybe at the expense of near-term margin expansion. Just wonder you see your ability to catch up with the upper end of this group without jeopardising your top line performance, that's the first question. Second question for Lene. I wonder if you can talk a little bit about your expectations for absolutely debt levels going forwards and maybe help us model correctly net financial expense and your net financial income going forward. I have a third question on operating cash flows, so perhaps I'll come back to that if that's possible?

You're looking at the long-term ambition. We believe that we should be able to grow our business organically above the market, but we also believe that no matter what kind of companies we are buying within our long-term ambition it will be among the best in the field. I'm sorry, that actually missed your second, your elaboration of that question. Could you repeat that for me?

Sure, it was following on actually from David's question is, essentially a lot of these companies within this peer group are actually stepping up their investment to support near-term top line growth and I wonder whether your aspiration to catch up with the upper end of this range assumes that you can still maintain a robust 7% top line growth or whether there's any connection with your margin and top line growth here?

We believe that when we're look at our best abilities to create value for the shareholders, then we need to get the right balance between the top line growth and the bottom line. We have the result, I think we indicated in our presentation. We have started to step in investments to get higher organic growth, most notably in Wound care business where we are investing heavily to cover the community sectors. I see us invest more than we have done in the past in getting organic growth. I think that the answer to your question is yes, we see them (),

Thank you and actually probably largely, if I can just follow-up with a quick question before we go to Lene. You've got very robust top line growth of say 7% and a lot of your peers are facing various competition and pricing pressure, or competitive competition. What would you say are the main risks for your top line growth over the next few years? Is there anything specific we need be thinking about in terms of market, healthcare reforms or competitive pressures?

I think that the only, well I think lots of things can happen of course, that's how it is to be in businesses – but the one which we don't know more about where to go would be healthcare reforms, of course. We always discuss with you what we know and it's very difficult for us to, well to guess on things that we don't know about. What we have is that we over a the last couple of years have invested heavily in optic affairs offices in our company to be able to much better understand what is happening? The political levels in the countries that I bought into recently, so in that sense we are prepared as we can be but, of course, you cannot be prepared enough for this.

Thank you.

With regard to debt, we're now a net debt only around 1.6 billions an we're seeing cash regeneration that we've seen, and expect to continue to see then that is going to continuing to go down. In terms of the absolute debt, if that was also your question and the net debt. Then we would expect that to be more or less stable because the facilities that we have drawn or can't as such that it simply doesn't make sense financially to repay them three or four time. A third thing that might be included in you question is whether we have forgotten about our net debt traded their target of 1.5 to 2.5. We haven't, it's still there it is suspended and, as you can see now, right now of course know we have a lot of new, for taking out further debts that should necessary.

Thank you. Perhaps I can just follow up with one last question then. In terms of your deleverage, do you expect to be a in a net cash position by the of the year, and perhaps you could elaborate a little bit in terms of acquisitions. Obviously we're see empathy which is a bolt-on acquisition. Do you envisage any transformational acquisitions over the next few years and perhaps I can jump in the queue for some CAPEX questions or follow up after it.

We don't provide any guidance on cash flow. What we have said is that we don't want to pay out excess cash flow to our shareholders, so therefore, of course you should know there is a limit as to how much will generate. Unless, of course, as you say, that there could be an acquisition. We can't comment, don't comment on acquisitions. We've done a very small one and that's not change our debt level. It is not, and I think it is important to stress that, because sometimes it becomes really the focus whenever we talk about it. It is not of paramount importance for us to go out and do a transformational acquisition. Not at all, we would look at what comes up, that will fit and that has a good business case.

Very good, shall I jump in the queue or shall I just ask a quick question on operational cash flow.

Yes you have another question.

Just quickly on cash flow. Obviously you've seen working capital as a percentage of sales firm up a little bit this year. Where do you see that going forward? Is there more room for improvements there? And just on operating cash flows, tax paid seems to be a very small percentage of tax expense on your P&L compared to history. Should we expect this to revert going forward, thank you?

First of all we see working capital and sales, yes there is a slight improvement I'm pleased to see that. I think all of you on this call know that I would like to see even more improvement. It is clear that we have taken the low hanging fruit. This does not mean that we will stop working on it, so hopefully we will over time be able to reduce that a little bit. With regard to your question of taxes paid, I believe and I'm just having someone check it for me to be absolutely certain here, but I believe it is a question timing only and nothing else. We're seeing nods around the table here, so that is ().

Thanks very much indeed.

Goran Lukic – MIV Asset Management

Hi, thank you very much. Goran Lukic from MIV Asset Management, just a congratulation for the great execution is the first thing and I would have two questions, so Wound Care was somewhat more a difficult part of your business. Looking back, more a difficult part of your business looking back the last quarter you are guiding towards slowing improving growth. This is based on your initiatives and sales force expansion and so on. Do you see already any impact on this or can you give any colour how quickly this will ramp-up or quickly this will improve, because for your overall growth you're mentioning a slower growth Ostomy, but higher growth in Wound Care and Urology. So you need some significant contribution from Urology and Wound Care to achieve your early goals. Therefore, Wound Care could be also significant part of it and looking back with the base you have, so this will probably need some time. Can you give any colour on Wound Care, how this will develop?

Lars Rasmussen

Just to make sure that I'm absolutely clear. We don't expect our current level of growth in Ostomy Care to go down. We actually win new patients more or less in all the countries that we're in and we take market shares in more or less all the countries that we're in, so in that sense we see a healthy growth in that part of the business, but it is of course not satisfying for us that we're growing below the market in Wound Care. There's a good reason why we do it, but as things are now, we have () as we speak launching the silicone products in our () markets and that is a market that places us in the fast growing segment of the Wound Care market and, at the same time, we have invested in the biggest countries we have in this sales force to cover the community segment. How fast that is picking up for us, I would not like to guess on because we don't have much experience with kind of sales forces because we basically never had it before, but what I can tell you is that we have a great product and we have a much higher market pressure than we have had before and we expect to see that pay off during the year that we are in now.

Perhaps just the situation in Europe and the price pressure we had in Europe. Can you give any information about the last few months or your outlook for Europe how, is it developed or what's your outlook on Europe?

I think that first of all we have to say that the health care reforms are not a new thing in our line of business. We have seen that over the years and, I guess, the thing in contrary in Europe is having said I mean in Germany, half of them walk around between the two Germanys and we have actually give early on a very good overview, I think, at the leave the overview of what we know is happening inside of the healthcare reforms and I think that's basically what we do know. The only surprise is the effects over the last many years, also what happened in Spain and it was this healthcare reform that came overnight and which was, of course, forced by the big deficit that they're facing, the government is facing in Spain, but apart from that, in most countries there's a process in place by which the Government is looking at the price levels and so on and so forth. I start something whether you except to see big surprises. We expect to see a healthy volume increase in all of the markets. We also expect to see over time finance pressure and it's actually been like that for quite many years.

You don't see any critical countries going forward let's say the next several quarters or so where similar things could happen.

I don't know anything about it. What I know is, we made public.

Great, thanks a lot.

Closing Comments

Then we end the conference here. Thank you very much and thank you very much for all participants. It was great that you could participate and thank you for your insightful questions.