

## **Chairman's report 2017/18**

### **Annex 1**

**Michael Pram Rasmussen:**

#### **1. Coloplast delivers solid full-year results and accelerates growth**

Coloplast's Annual General Meeting is always a special occasion for me. Each year, I look forward to presenting the Board's report for the past financial year and especially so when I will be reporting on impressive results and solid growth, as is the case with Coloplast today.

Coloplast has a clear strategy of profitable growth. In other words, our ambition is to outgrow the market and to deliver high earnings. We achieved that goal once again in the past financial year.

In November of last year, the company revised its long-term guidance on the ambition of accelerating growth during the period to 2019/2020 and growing at the upper end of the 7-9% range.

In the 2017/18 financial year, Coloplast delivered 8% organic growth in a market growing by 4-5% and reported an EBIT margin of 31%.

In other words, our revenue grew at twice the market growth rate in the 2017/18 financial year.

Most of all, this growth-oriented guidance illustrates how confident the Board and the Executive Management are about Coloplast's ability to move further ahead of the competition and take market share at a slightly accelerated pace during the strategy period to 2020.

Quite simply, the purpose is to create more shareholder value going forward, and our 31% EBIT margin and 44% return on

invested capital clearly makes Coloplast one of the world's most profitable medtech companies.

So, let me conclude once again; and for the last time as Chairman, that Coloplast is in good shape.

That brings me to the change in management that you will no doubt have noted. Although it does not form part of my report for the past financial year, allow me to briefly explain the changes made to Coloplast's executive team.

After 30 years with Coloplast, Lars Rasmussen has resigned as CEO. He was succeeded by Kristian Villumsen, who formally took over the position yesterday, the 4th of December.

Kristian Villumsen has been with Coloplast for ten years and has served as Executive Vice President of our Chronic Care business and a member of the Executive Management for the past four years.

Paul Marcun, who was formerly in charge of Coloplast's Emerging Markets, will join the Executive Management and he has been appointed Executive Vice President of our Chronic Care business effective from mid-January 2019.

I have decided not to stand for re-election at today's general meeting, and the Board unanimously recommends that Lars Rasmussen be elected new Chairman of the Board.

That was a brief summary of the recently announced management changes. The matter of a new Chairman will be considered under item 5 on today's agenda, 'Election of members to the Board of Directors'.

Now, let's turn to developments at Coloplast during the past financial year.

## 2. Two years with LEAD20

The company's LEAD20 strategy is about delivering unparalleled innovation, service, leadership and efficiency. Coloplast is an innovative business and to provide the perfect framework for innovation and profitable growth, the company must produce and operate as efficiently as it possibly can.

Much has happened since we launched the LEAD20 strategy two years ago, and I would like to spend a little time sharing with you some of the past year's highlights of the four themes of the strategy.

2.1 Let me start from the top with Coloplast's **unique products and innovation**. The heart of the business.

The company has met its declared target of delivering superior products and innovation by making a number of major product launches in the past financial year.

Coloplast launched SenSura® Mio Concave as well as, specifically in the US market, Coloplast SpeediCath® Flex and Biatain® Silicone Sizes & Shapes.

SenSura® Mio Concave was launched in January 2018 in response to strong demand for ostomy care products designed for outward body profiles. Flat, convex or bowl-shaped products are quite common, but SenSura® Mio Concave is the first ostomy care product designed specifically for people with hernias or curves.

Feedback on SenSura® Mio Concave has been very positive, and the product has now been launched and is eligible for reimbursement in ten countries.

The new products will contribute to driving growth in their respective business areas going forward.

Aiming to offer users products that solve their difficult and in many cases intimate challenges, Coloplast has also launched a Clinical

Performance Programme in Ostomy Care and Continence Care which is intended to provide clinical documentation of the performance of a number of our new products.

The programme is intended to document the quality of the products and the value they provide, both for users and for healthcare systems. Coloplast is committed to working for higher reimbursement rates by increasing clinical evidence.

Coloplast has stepped up its research and development expenditure in recent years, in part because the company intends to invest in clinically differentiated products for the benefit of users.

For example, the Clinical Performance Programme is intended to demonstrate that Coloplast's ostomy care products reduce the risk of leakage and skin problems and that its continence care products reduce the risk of infection.

Initial studies have been commenced, and we expect the first products based on clinical studies to be launched in 2020.

At the Capital Markets Day held in September, Coloplast announced the goal of launching digital products in the Chronic Care business as part of the Clinical Performance Programme.

Launching digitalised versions of Chronic Care products ties in with the company's ambition to lift the standard of care through clinically differentiated innovation.

## 2.2 That leads us to the part of the strategy involving **strong leadership development**.

Coloplast is a growing company and in constant need of new managers. Recruiting new managers and developing the next generation of managers is essential for supporting the company's growth and ambitions.

Coloplast aims to ensure that everyone has equal opportunities, regardless of their gender, ethnic background or religious beliefs. Through new in-house processes, we will make sure that there is room for everyone with ambition and the ability to create results.

The aim is for Coloplast to have a management culture and an organisational culture that support and enhance diversity in our senior management. The goal is to consistently improve on the distribution between men and women in management year by year.

In the 2017/18 financial year, the percentage of women in senior management positions at Coloplast rose from 14% to 20%. Women still hold more than 40% of the company's general management positions.

Coloplast has introduced a number of in-house role models of diversity. This is a way for the company to draw attention to people in senior management, as well as other managers, who represent diversity. Through both in-house and external activities, these role models will help to show the way for women with an ambition to go further.

In 2017/18, the top management tier completed training in inclusive management behaviour. The results of that training will now be implemented in the rest of our management tiers.

Every two years, Coloplast measures employee engagement through a global survey of all employees. This year's survey was the third straight with a 93% response rate. It showed a high engagement level in the upper quartile at 74.

Coloplast is a company experiencing growth, and considering the number of new employees, maintaining such a high engagement level is an achievement in itself.

In 2017/18, Coloplast reviewed its code of ethics, the so-called Coloplast BEST - Business Ethical Standards. It is mandatory for all white-collar employees at Coloplast to train in Coloplast BEST.

Coloplast BEST was originally introduced through training followed-up by an online test and certification. At the end of 2017/18, 99% of relevant employees had completed BEST training.

### 2.3 The third theme of the strategy is **unparalleled efficiency**.

Coloplast aims to deliver unparalleled efficiency through ambitious global operations plans.

The company is strongly committed to running its business efficiently, and as a global player in the healthcare industry, we must constantly improve in order to be competitive.

As part of the LEAD20 strategy, Coloplast launched a new Global Operations Plan (GOP4) last year, which is expected to lift the EBIT margin by 150bp with full effect from the end of the 2020/21 financial year.

GOP4 involves enhancing efficiency at the company's high-volume production facilities, improving our procurement processes and shutting down the factory at Thisted, Denmark. The process to shut down the Thisted site will run until the summer of 2019.

In 2017/18, Coloplast finished the expansion project at the factory in Nyírbátor, Hungary. The 26,000 sq.m. expansion has been completed and the facility is now operational.

Aiming to secure its future production capacity and ability to supply products, Coloplast has acquired a plot in Costa Rica for the purpose of establishing new high-volume production facilities.

The first of these facilities is expected to be ready in 2020.

Coloplast is a development-driven company business, and GOP4 will provide the company with a good platform from which to achieve strong results towards 2020.

The fourth and final theme of the strategy is about Coloplast's ***unique user-focused market approach***.

Coloplast remains focused on building a user-oriented medtech company. The approach is to have direct interaction with our users, for instance through the Coloplast Care programme.

Coloplast Care is a service which provides support and knowledge to around 1.2 million users globally about living with incontinence or a stoma.

In that connection, I feel I should mention that Coloplast was, of course, well prepared for the new European Data Protection Regulations (GDPR) which took effect in May of 2018.

Through Coloplast Care, Coloplast conducted more than 1 million consultations with users during the 2017/18 year.

Coloplast Care and Coloplast direct-to-consumer activities are now present in more than 30 countries.

The acquisitions of the French direct-to-consumer home delivery company, Lilial, and the German distributor, IncoCare, in the spring provided another component in Coloplast's overall ambition of bringing innovative products and services to the market and giving our users access to innovative products.

The company has built its own distribution network in China and also offers direct-to-consumer services there.

Combined with Comfort Medical in the United States and Coloplast Charter in the UK, Coloplast is now able to deliver products direct to end users in the company's five largest markets.

Those were the highlights of the second year with LEAD20. I would now like to spend a few minutes elaborating on Coloplast's growth ambitions.

The guidance for long-term organic growth is 7-9% per year, and the ambition remains to reach the upper end of that range.

The EBIT margin guidance is for more than 30% at constant exchange rates.

The EBIT margin guidance reflects plans for incremental commercial investments each year of up to 2% of revenue. That will require solid investments in product development and in sales and marketing across geographical regions, all for to accelerate growth.

### **3. Consolidated financial highlights of the 2017/18 financial year**

I will now review the financial highlights for the past year.

Coloplast released its full-year financial results for the 2017/18 financial year on 1 November alongside the Annual Report and the updated Corporate Responsibility Report.

Reporting positive growth in all business areas and in all regions, Coloplast expanded its position as a global market leader in the past financial year.



Organic revenue growth was 8%. In Danish kroner, revenue was up by 6% to DKK 16,449 million. Measured in Danish kroner, revenue growth was mainly impacted by the depreciation of the US dollar and Argentine peso against Danish kroner.

Relative to the 7% organic growth rates of the past three years, the full-year revenue growth marks a shift in momentum and an acceleration of growth in a market otherwise growing by 4-5%.

Accelerating growth was indeed Coloplast's goal when revising its long-term guidance in November 2017 on the ambition of stepping up investment, accelerating growth during the period to 2019/2020 and growing at the upper end of the 7-9% range.

EBIT was DKK 5,091 million, a DKK 67 million (1%) increase from DKK 5,024 million last year. However, at constant exchange rates and adjusted for the one-off revenue adjustment relating to Veterans Affairs, EBIT was up by 4%, equal to an EBIT margin of 31% against 33% last year.

The EBIT result also included restructuring costs of about DKK 50 million in relation to the reduction of production staff in Denmark.

The EBIT performance was in line with the company's guidance and reflected an increase in innovation and sales and marketing investments across all product areas and geographies.

The net profit was DKK 3,845 million, a DKK 48 million (1%) increase from DKK 3,797 million last year.

Diluted earnings per share (EPS) amounted to DKK 18.10, also a 1% increase.

At 30 September 2018, Coloplast had 11,738 employees, of whom 10,359 worked in international locations. During the financial year, the number of employees increased by 8%.

The headcount is growing in sales and production, and this reflects the fact that the company is growing and is investing in growth.

The Ostomy Care business delivered 9% organic sales growth and 6% reported sales growth. Revenue from acquisitions contributed 1% due to acquisitions in the distribution channel. The portfolio of SenSura® Mio products and the Brava® range of supporting products were the main drivers of ostomy care sales growth. Driving the sales performance were the European, Chinese and US markets.

Revenue was DKK 6,643 million, equalling 40% of the consolidated revenue.

Coloplast retains its position as the global market leader in Ostomy Care products, holding 35-40% of the market. The annual market growth is estimated at 4-5%.

The Contenance Care business delivered 8% organic sales growth and 7% reported growth. Revenue from acquisitions contributed 2% due to acquisitions in the distribution channel.

Sales of SpeediCath® intermittent catheters and Peristeen® continued to drive growth in the Contenance Care business. The performance was driven mainly driven by the US, UK, French and German markets.

Revenue was DKK 5,926 million, equalling 36% of our consolidated revenue.

Coloplast remains the global market leader in Contenance Care, with a market share of about 40%. Market growth is estimated to have been 5-6%.

The Interventional Urology business delivered 10% organic sales growth and 6% reported growth. Growth was mainly driven by Titan® penile implants in the US market. Sales growth of disposable surgical products and, in particular, of kidney stone products, were driven by the French and German markets.

The US market continued to drive growth in the Interventional Urology business, with France, Italy and the Middle East also contributing.

Revenue was DKK 1,740 million, equalling 11% of the consolidated revenue.

Market growth is estimated at 3-5%. Coloplast holds about a 15% share of the combined global urology product market.

Since 2011, Coloplast has been named in lawsuits in the United States involving product liability claims resulting from the use of transvaginal surgical mesh products designed to treat pelvic organ prolapse and stress urinary incontinence.

The company has paid a total of DKK 4.7 billion to date, including DKK 0.5 billion in the 2017/18 financial year. It is estimated that more than 95% of known cases have now been settled. The judge presiding in the case has issued a court order stating that plaintiffs may no longer direct claims against Coloplast in the ongoing MDL, which means the matter is currently in its final phase.

In that connection, I would like to briefly tell you about the issue that has attracted media attention during the past couple of weeks.

On Monday, 26 November, DR, the Danish Broadcasting Corporation, aired a critical documentary on the regulation of products produced by the medtech industry, in which Coloplast was mentioned in reference to the company's transvaginal surgical

mesh products and the multi-district litigation (MDL) in the United States.

I am bringing up the documentary and the overall media coverage today, because it threatens to damage Coloplast's name and reputation.

Coloplast has been in contact with DR since June and has proactively made DR's journalists aware of relevant documents and sources that might help them explore the issue.

Unfortunately, DR portrayed this matter from a very one-sided perspective, and for that reason, we decided not to take part in the documentary. Instead Coloplast provided DR and Politiken with a written statement.

It goes without saying that Coloplast's products are fully compliant with all requirements and regulations. A product must have regulatory approval before being launched to the market, and it goes without saying that Coloplast has provided all the necessary data to the respective national regulatory bodies.

A new EU Medical Devices Directive takes effect in May 2020, and Coloplast will continue to meet and comply with all relevant regulations. By the same token, the company will continue to invest in surgeon training and clinical studies to ensure that we can offer quality products to users all over the world.

Coloplast will stay committed to the market for mesh products, because we believe in our products. The company's products are safe and effective when used by qualified surgeons and for the appropriate patients.

Moving on with the Wound & Skin Care business delivering 3% organic sales growth, with Biatain® foam dressings continuing to drive the performance.

The Wound Care business alone delivered 5% organic growth, driven by a good momentum for the Biatain® Silicone portfolio in the European markets. In addition, the momentum improved in China during the year. A comprehensive pricing reform in Greece impacted the growth performance of the Wound Care business.

Sales of wound and skin care products amounted to DKK 2,140 million, equalling 13% of the consolidated revenue.

Market growth is estimated at 2-4%. Coloplast holds a 7-9% share of the global wound and skin care market.

And now for the trends in Coloplast's geographical markets.

In Europe, organic growth was 5%. Revenue was DKK 9,941 million, which amounted to 60% of the consolidated revenue.

Growth in the European market remains satisfactory across the region, backed by solid growth in the UK and French markets in particular.

In other developed markets, organic growth was 11%. Revenue was DKK 3,791 million, which amounted to 23% of the consolidated revenue.

The performance in the USA was driven by the ongoing upgrade to hydrophilic catheters, that is, ready-to-use catheters. This category of coated catheters now represents about 50% of total intermittent catheter sales in the US market. Coloplast continues to expand the US Ostomy Care business by way of new hospital contracts, including with the Cleveland Clinic, one of the leading hospital chains in the country.

In Emerging Markets, organic growth was 14%. Revenue was DKK 2,717 million, which amounted to 17% of the consolidated revenue.

Growth in the region was mainly driven by accelerating growth rates in the Ostomy Care business in China and Brazil and across a number of small markets, including in the Middle East where sales were driven by macroeconomic events. A comprehensive pricing reform in Greece impacted the growth performance.

And now for the company's distribution, administrative and R&D costs.

Distribution costs amounted to DKK 4,721 million, a DKK 350 million increase from DKK 4,371 million last year. The distribution costs include sales and marketing initiatives across a number of markets in Chronic Care, Wound Care and Interventional Urology.

Administrative expenses amounted to DKK 653 million, a DKK 30 million increase from DKK 623 million last year. Administrative expenses accounted for 4% of revenue, which was in line with last year.

The R&D costs were DKK 640 million, a DKK 66 million (11%) increase over 2016/17 that was due to a general increase in business activity, which included the Clinical Performance Programme. R&D costs amounted to 4% of revenue, which was consistent with last year's percentage.

And now for developments in Coloplast's balance sheet and cash flows.

At DKK 11,769 million, total assets fell by DKK 281 million relative to 30 September 2017.

Equity increased by DKK 466 million relative to 30 September 2017 to DKK 6,418 million.

The free cash flow for the year was an inflow of DKK 3,414 million against an inflow of DKK 1,632 million last year. Most of the increase was due to a reduction in cash flows for acquisitions and a

decline in payments relative to 2016/17 in connection with settlements in lawsuits in the USA alleging injury resulting from the use of transvaginal surgical mesh products.

Adjusted for payments made in connection with the above-mentioned lawsuits and company acquisitions, the free cash flow was an inflow of DKK 4,058 million against DKK 4,079 million in 2016/17.

We returned a part of the free cash flow to our shareholders by way of share buy-backs and dividends.

In 2017/18, Coloplast launched a DKK 1 billion share buy-back programme running until the end of the 2018/19 financial year. The first part of the share buy-back programme of DKK 500m was completed in May 2018.

The Board recommends that the shareholders approve a year-end dividend of DKK 11 per share at today's general meeting. This brings the dividend paid for the year to DKK 16 per share, as compared with DKK 15 per share last year. The total dividend payout for the 2017/18 financial year amounts to DKK 3,395 million and the pay-out ratio is 88%.

On the final business day of the 2016/17 financial year, Coloplast was quoted on NASDAQ Copenhagen at a price of DKK 511 per share. On the final day of the financial year under review, the shares closed at DKK 656.8, which corresponds to an increase of 28.5%.

For the period from 1 October 2017 to 30 September 2018, Coloplast shares produced a return on investment including dividends of 31.6%. By comparison, an investment in the C25 index during the same period yielded a return of 4.6%.

And now for our financial guidance.

For 2018/19, we expect organic revenue growth of about 8% at constant exchange rates and of 8-9% in Danish kroner. Coloplast expects the EBIT margin to be 30-31% at constant exchange rates and the reported EBIT margin to be about 31% in Danish kroner.

The EBIT margin forecast reflects incremental investments of up to 2% of revenue for innovation and sales and marketing purposes.

Capital expenditure is expected to be about DKK 750 million, and the effective tax rate is expected to be about 23%.

Before I end my report, I must not forget to tell you that at last year's general meeting we were recommended to include extracts of the Corporate Responsibility Reports in our Annual Reports.

We have heeded that advice, and the 2017/18 Annual Report contains a section on Coloplast's approach to corporate responsibility.

As a market leader, it is only natural for Coloplast to assume a greater responsibility, whether towards users, healthcare professionals, employees, society, the environment or shareholders. You can read more about that in the Annual Report and about how Coloplast is implementing the UN Sustainable Development Goals.

This marks the end of my report today, my last one as Chairman and Board member of Coloplast.

Let me round off by thanking the employees, managers and the Executive Management for a job very well done and to my colleagues on the Board for their constructive and positive collaboration during my thirteen years on the Board, twelve of them as Chairman.



It has been a real pleasure working with you, and I'm truly going to miss being in your good company. I will, however, look forward to following you from the side-line.

Now that we've talked about the value created during the year for Coloplast and for its shareholders, I would like to show you some of the products that we expect will contribute to creating value for the users; in this case, toddlers.

(SenSura® Mio Baby & Kids-video: Little Fighters)