

## **Chairman's report 2010/11**

---

**Michael Pram Rasmussen:**

### **1. Yet another good year for Coloplast shareholders**

I'm delighted once again to be giving my report on Coloplast for the past financial year.

I'll give you the good news right away: it's been yet another good year for our shareholders. Our EBIT margin is now at 25%, up from 21% last year and only 12% three years ago. At the same time, Coloplast is outgrowing the market. In other words, our company is once again delivering on the promises we've made to our shareholders.

I would like to extend a big Thank You to our managers and employees for all the work they've put in to achieve these results.

At last year's AGM, I was asked the following question: "How can you take pleasure in Coloplast's financial results when at the same time the company is closing down jobs in Denmark?"

Let me use that very question as my cue for starting this year's report, because having a healthy and strong business that is returning such good results as we have provides a whole range of very obvious benefits for all our stakeholders.

Let me give you a few examples:

A strong Coloplast is good for...

- the users, because Coloplast develops new and improved products that help them live a better life. The better Coloplast does in the global competition, the better the opportunities for our company to continue developing even better products.

A strong Coloplast is good for...

- our employees, because a strong Coloplast gives each employee an opportunity to have a meaningful, exciting and challenging job. I know the employees at Coloplast for their dedication and professional pride and for their commitment to wanting to make a difference. And they do make a difference! Each and every day, the employees live the Coloplast mission to make life easier for the users. The better Coloplast does in the global competition, the better we can serve our customers and continue to make a difference.

A strong Coloplast is good for...

- society. The better Coloplast does in the global competition, the more tax our company pays and the more we contribute to growth in Danish society. At the same time, we develop products that turn passive patients into active citizens.

A strong Coloplast is good for...

- the shareholders, because Coloplast has gained in value, giving them a good return on their investment.

As I've pointed out at our recent annual general meetings, it took hard work and difficult decisions had to be made in order to achieve the results that I will be telling you about today, but the results speak for themselves: today, we have a leaner, healthier and stronger Coloplast.

At the same time, Coloplast is operating in a competitive market and in a challenging financial climate. Demographic developments mean that the global population of elderly people is growing. That puts increasing pressure on healthcare budgets. In addition, there are public sector deficits in many of our primary markets. As a consequence, price pressure and spending cuts will be on the political agenda throughout the western world for many years to come.

Today, Coloplast stands much better prepared to tackle this situation than we did just three years ago, backed by much more efficient production, a stronger sales organisation and a more focused R&D approach.

All of this makes me confident that Coloplast will continue to produce equally strong financial results in the future as the ones I'm going to tell you about now.

Coloplast released its full-year financial results for the 2010/11 financial year on 1 November, and later that day the Annual Report was posted on our website along with our updated Corporate Responsibility Report.

## **2. Profitable growth – the journey continues...**

Before I go into the details of the financial year, I would like to tell you about our company's strategy, which continues to be one of profitable growth.

Last year, your Board of Directors set out a new financial ambition for Coloplast:

- for the company to outgrow the market
- for the company to deliver earnings margins in line with the world's best performing med-tech companies

This is an appropriate ambition for Coloplast: we've completed our transition process and have lifted our earnings substantially since 2008.

To achieve our ambition we want to:

- serve our customers better than anyone else
- provide end-user products and services better than anyone else
- run our business better than anyone else

Allow me to elaborate on these three items.

1. At Coloplast, we aim to serve our customers better than anyone else...

The Coloplast sales force has become more efficient. Last year, I told you about the changes that mean our sales people now call on fewer, but larger clients at the right frequency. Detailed action plans are drawn up for each of these visits. We are continuing the journey of professionalising our sales force. We're doing that by becoming even better at bringing new products to the market as efficiently as possible and by continuing to give our salespersons, not least our sales managers, the very best skills through our training programmes. Now, we are also introducing a new and improved website, so our customers can contact us directly about our products when it best suits them.

2. We aim to deliver end-user products and services better than anyone else...

We made two large product launches during this past financial year: A compact and very discreet catheter for men. It doesn't look like a catheter, and it's small enough to fit in a pocket. This means that it can be used much more discreetly than traditional catheters, and we know from our users that this helps give them a better life, so they don't isolate themselves from society.

Our other new product is the SenSura®Mio, a new colostomy appliance with a unique, elastic adhesive designed to respond to natural body movements. Very often, the area around a stoma is uneven, and that may represent a challenge in making the colostomy appliance fit securely on the skin without leaking. The elastic adhesive adapts to individual body contours.

Both of these new products received a very positive response. Users are very pleased with the products and both launches went better than we had expected.

We launched both products through our new and more efficient launch process, which we also expect to use in the future. The model provides for a faster and much more efficient market launch and implies fewer individual products which in return provide much more value to users.

In addition to the two new products, we also introduced improved services to our users in the form of Coloplast Care, a nurse-directed programme for

new patients. In a user survey conducted in the USA, 75% of the respondents said that the programme had helped them considerably in adapting to their new situation after they came home from hospital.

### 3. We aim to run our business better than anyone else...

As I've also told you in the last couple of years, we have been working to create a simpler and more efficient organisation. The results are easy to see: With our EBIT margin at 25%, I'm pleased to say that we have our costs well under control.

During the past financial year, we finished the production relocation, and that process has been a major contributor to the very satisfactory EBIT margin. In connection with the relocation we optimised the support functions at our head office, and last year I told you about the changes that have now been implemented at our subsidiaries to enhance their sales focus and enable them to better utilise the head office support functions (the Chronic Care model). In the past financial year, we made further changes at head office with the main objective being for head office to provide exactly the support – no more, no less – the business needs.

An essential part of running your business better than others do is to have good, well-defined leadership. During the past year, our company has worked intensively on a new leadership development program designed to help all our managers to continually develop their skills. Our leadership training is based on the following four leadership principles, which we have defined as being absolutely essential for success: 1) set high ambitions and seek solutions 2) accept responsibility and show decisive attitude 3) give and receive open and honest feedback 4) deliver business results.

In the 2010/11 financial year, Coloplast had 7,328 employees, of whom 5,872 worked in international locations. During the financial year, the number of employees rose by 2% and our company's revenue grew by 7%. In other words, we've improved our efficiency by a good margin.

The greater efficiency is reflected by our return on average invested capital (ROIC). In the previous financial year, Coloplast earned DKK 23 for each DKK 100 invested in the company. In the recent financial year, we earned DKK 30 per DKK 100 invested – and that's after tax! The improvement is very much the result of the much more efficient use of Coloplast's existing investments, primarily at our factories.

The changes made at Coloplast during the past financial year have once again had human consequences that were not positive for everyone. Again this year, we had to part with employees in Denmark, while we've created new jobs in

Hungary, China and Poland. Coloplast offered good terms to the people made redundant, including counselling, continuing education and skills training, so that they can move on in their working lives.

With these words, I will now present our consolidated financial highlights.

### **3. Consolidated financial highlights for the 2010/2011 financial year**

Revenue measured in Danish kroner was up by 7% to DKK 10,172m from DKK 9.5bn last year. Organic revenue growth was 6%.

The gross margin rose from 61% in 2009/10 to 65% in 2010/11. As I told you earlier, the relocation has been completed and we are very pleased to note that we can now see the effects of our much more efficient production.

EBIT was up by 29% to DKK 2.6bn from DKK 2bn in 2009/10.

The EBIT margin was 25%, against 21% last year.

The profit for the year grew by 46% to more than DKK 1.8bn from DKK 1.2bn last year.

As I mentioned earlier, the return on average invested capital for the year was 30% after tax, up from 23% last year. Our ROIC has improved consistently since the 2006/07 financial year, when it was at 6%, and that is a very satisfactory performance.

As I said previously, our overall organic growth rate was 6%.

We are very pleased to note that Coloplast maintains strong growth in our chronic care business areas (Ostomy Care and Continence Care), as especially the emerging markets and the UK saw good growth.

Coloplast has retained the position as the global market leader of ostomy care products, holding more than 35% of the market. Organic growth in this area was 7%, 2–3 percentage points above the market growth rate. In Danish kroner, the growth rate was 8% and revenue amounted to DKK 4.3bn.

Our Continence Care revenue rose to DKK 3.5bn on 8% organic growth. In Danish kroner, growth was also 8%.

For continence care products, such as catheters and urine bags, we also retained our position as the global market leader and we continue to hold about one-third of the global market.

Urology revenue rose by 9% to DKK 938m on 4% organic growth. Coloplast continues to hold about a 10% share of the combined global market for urology products.

Sales in the wound care business remained unsatisfactory. Growth in the European markets remained affected by price pressure and tough competition, while the growth performance in Asia was satisfactory.

Overall, Coloplast is outgrowing the market, which expanded at an estimated 5% during the past financial year.

And now for developments in Coloplast's geographical markets.

Europe continues to be our main market. This is where we generate most of our revenue and it is the base of our largest market shares. Revenue was DKK 7.5bn, which translates into reported growth of 5%, while organic growth was 4%. Growth was driven especially by Continence Care, but Ostomy Care was also a positive contributor. The lack of growth in the European wound care business had a negative impact on overall sales growth.

Revenue in the Americas increased by 8% to DKK 1.7bn on 8% organic growth. The South American market, especially Brazil and Argentina, reported a very satisfactory performance, particularly in the ostomy care business. Revenue growth in the US market was not satisfactory. A new management was appointed and a new business plan was launched during the summer. As expected, the effects of the new business plan have not yet materialised.

Revenue in the Rest of the World was up by 17% to DKK 982m. The appreciation of the AUD and JPY in particular relative to DKK lifted the reported growth by 6%. Organic growth was 11% with especially China making a positive contribution.

And now for our costs:

We have good control of our costs. As I mentioned earlier, we've worked diligently since 2008 to make our organisation more efficient and to enhance our cost awareness. That is the main reason why our EBIT margin improved again this year.

Distribution costs, which include our sales and marketing costs, amounted to DKK 2,988m, equal to 29% of revenue, which was consistent with last year. During the period we appointed more salespersons in the Wound Care business and in the Chinese market, so this shows the greater efficiency of our sales force.

Administrative expenses amounted to DKK 604m, equal to 6% of revenue and in line with last year.

R&D costs were DKK 415m and accounted for 4% of revenue, which was in line with last year.

Our financial results of the 2010/11 financial year triggered tax payable in Denmark of DKK 530m. For more on this, I refer you to note 10 to the financial statements on page 36 of our Annual Report.

At DKK 9,218m, total assets increased by DKK 1,447m relative to 30 September 2010 due to a DKK 1.4bn increase in our cash funds.

Intangible assets amounted to DKK 1,802m, which was DKK 35m more than last year. The increase was mainly due to the acquisition of Mpathy, which was, however, partly offset by depreciation and amortisation charges for the year.

Current assets increased by DKK 1,612m relative to 30 September 2010 to stand at DKK 4,965m, due in part to an increase in the securities portfolio and in part to the above-mentioned increase in our cash funds.

Relative to the beginning of the financial year, trade receivables were up by 7% to DKK 1,820m, the increase being mainly due to sales growth and longer payment times in Southern Europe.

Trade payables amounted to DKK 420m, against DKK 455m at the beginning of the year.

Working capital made up 23% of revenue, unchanged from the beginning of the year.

During the year, equity increased by DKK 1,026m to DKK 4,478m. The comprehensive income for the year of DKK 1,754m was partly offset by dividend payments of DKK 422m and share buy-backs of DKK 500m. Employees' exercise of share options and the sale of employee shares increased equity by DKK 156m.

Net interest-bearing debt fell by DKK 1,054m relative to last year to DKK 539m. The ratio of net interest-bearing debt to EBITDA was 0.2.

Your Board recommends that the company pays an ordinary dividend of DKK 14 per share. That's DKK 4 per share, or 40%, more than last year, and it equals a pay-out ratio of 32%. In other words, we're distributing 32% of the year's profit to the shareholders.

In December 2009, the shareholders in general meeting authorised Coloplast to establish a share buy-back programme totalling up to DKK 1bn until the end of the 2010/11 financial year. We completed the first half of the programme last year, and the outstanding share buy-backs of DKK 500m were concluded in June 2011.

Considering Coloplast's strong cash resources, the Board of Directors has resolved to establish another share buy-back programme totalling up to DKK 1bn until the end of the 2012/13 financial year. Implementation of the buy-back programme is subject to the shareholders voting at today's general meeting to adopt an authorisation to buy back shares for up to 10% of the company's share capital. Should alternative opportunities arise during that period which are

considered more beneficial for the shareholders, the authorisation may not be utilised.

On the first business day of the financial year, Coloplast shares were quoted on NASDAQ OMX Copenhagen at a price of DKK 650.5 per share. The shares ended the financial year at DKK 803.5 per share, equal to an increase of 24.5% including dividends. At lunchtime today, the share price was DKK 842.5. By comparison, the C20 index fell by 14.9% during the same period. In other words, Coloplast shares performed really well during the financial year.

As you can see from the documents distributed ahead of this general meeting, the Board proposes to raise the annual basic fees paid to Board members by DKK 25,000. The reason for the proposal is to bring the fee in line with the general market level.

The current basic fee of DKK 325,000 was last raised at the annual general meeting held in 2007.

You will find a full report on corporate governance at Coloplast on our website, but a summary review is also set out in the management report on pages 14-15 of the Annual Report.

On our website you can also find our Corporate Responsibility Report, which provides a presentation of the main results and challenges for Coloplast from a corporate responsibility perspective. Print versions of the report are also available here today.

And now for our financial forecasts.

Our long-term financial ambitions are unchanged. As I mentioned previously, our ambition is as follows:

- for the company to outgrow the market
- for the company to deliver earnings margins in line with the world's best performing med-tech companies

For the 2011/12 financial year, Coloplast expects revenue growth of about 6%, both organically and in DKK.

We expect the EBIT margin to be about 27%, both when measured in foreign currencies and in DKK. The expected increase is based on the initiatives that have already been launched.

Our capital expenditure is expected to be DKK 300m.

The effective tax rate is expected to be 25–26%.



Once again, I am very pleased with our performance of the past year. Coloplast has become a better company for everyone involved: shareholders, users, customers, employees and society in general.

Let me conclude my report by extending a big Thank You to all employees, managers and our executive management for a job well done. Thank you!