

Chairman's report 2013-14

Annex 1

Michael Pram Rasmussen:

1. Yet another good year for Coloplast shareholders

Each year, I look forward to the AGM and to presenting the Board's report on Coloplast for the past financial year.

Coloplast is an exceptionally strong and ambitious company that has gone through impressive developments in recent years. Your Board and Executive Management intend to ensure that this process continues so we can continue to create value in Coloplast.

Enhancing value creation is an objective for any company. It provides benefits for the company's stakeholders: customers get access to newer and better products; employees have better career opportunities; society benefits from innovation, growth and tax revenue; and the company's shareholders get a better return on their investment.

This is why, at Coloplast, our strategy is to achieve profitable growth. In other words, our ambition is to outperform the market *and* improve our earnings – at the same time. This is an ambitious strategy, and I'm often asked if we can go on doing that. Can we both outperform the market by a wide margin and still be more profitable than our industry in general if we already have a very large market share?

I believe the results achieved by Coloplast clearly speak for

themselves. Our company is growing nearly twice as fast as the market, and we're not just profitable: we're actually one of the very most profitable med-tech businesses when compared with our global industry peers.

And the numbers speak for themselves: our EBIT margin before special items is now 33%, and our ROIC after tax is 49%, also before special items.

As I've already mentioned, Coloplast is growing at almost double the market rate: our business grew by 9% in a market that is growing by 5%.

These are impressive numbers, and it is indeed a great pleasure for me to present them to you today. I would like to extend a big “Thank you” to all our employees, managers and the executive team for all the hard work they put in to achieve these results. You have every reason to be very proud.

Due to the positive performance by Coloplast, I was able to tell you two years ago – in 2012– about Coloplast's new growth strategy for future profitable growth. Since then, we have updated the strategy and presented it at our Capital Markets Day on 4 June 2014 in Copenhagen. On that occasion, we also announced our new and ambitious long-term financial guidance.

Before I review the financial results for the past year, let me briefly sum up the strategy and tell you about the progress we're making on our growth initiatives.

2. Staying focused on increasing organic growth... :

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The Board's decision in 2012 to upgrade our growth strategy was rooted in a very solid base of strict cost discipline combined with a professional sales force and a strong portfolio of new products. This meant that our company had the right platform from which to invest in profitable organic growth.

Back in March 2012, the Board approved a strategy intended to enhance top-line growth. As I said earlier, we updated the strategic direction, adding the new long-term target we announced in June at the Capital Markets Day in Copenhagen.

Our updated long-term target is now for annual organic growth in the 7–10% range and an annual improvement of our EBIT by 0.5–1.0 percentage point. That's rather ambitious.

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Achieving those targets requires us to invest in growth. To that end, Coloplast invested a further DKK 200 million in growth initiatives in the past year, and in the coming years we will be focused on sustaining our high growth rates by investing further in:

- Sustained growth in the core markets of Europe
- Engaging more in interacting and building relations with end users
- Increased growth in the developed markets outside Europe (the USA, Canada, Japan and Australia)
- Further expansion and growth in new markets
- Market leadership in selected new markets and relevant opportunities in the European Wound Care business

- Globalising the Urology Care business.

Coloplast invests to grow across markets and regions, and I will now review the three geographical markets where we operate.

Europe is a core market for Coloplast. We generate 66% of our revenue in Europe, and Coloplast is clearly the market leader. We intend to retain and expand this position by launching strong new products and by engaging even more with our customers – through the Coloplast Care programme, for example, a nurse-directed programme offering help and support to our customers during the difficult time after their discharge from hospital.

We generate 20% of our revenue in established markets outside Europe. These are the USA, Canada, Japan and Australia. We intend to accelerate growth in these markets and take additional market share, especially in the USA, where we continued to invest in stepping up our sales pressure over the past year. In this context, it is encouraging to note that the satisfactory growth trend in our US business has continued.

We generate the last 14% of our revenue from Emerging markets. We intend to step up sales growth in countries such as China and Brazil by continuing to invest in sales forces while also working with the health authorities and healthcare professionals in each of these countries to make assistive products more accessible.

During the past year, we also established offices in countries such as Algeria and Turkey in the region that covers the Middle East, India and North Africa.

A prerequisite for growth is to continue investing in expanding our

sales organisation and to have new high-quality products. Before I review our financial highlights, I would, therefore, like to show you two examples of innovative products that Coloplast launched in the past year.

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In the first quarter of the financial year, Coloplast launched the new and improved version of the SenSura® Mio ostomy care product, which features a significantly improved filter and a new neutral colour for a more discreet user experience.

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In October, we introduced a new catheter for women, the SpeediCath® Compact Eve. It has a new design for added discretion and its new triangular shape offers improved functionality. Both products were well received by our customers.

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Along with investing in our sales force and in developing innovative products, Coloplast has become more involved in interacting and building relationships with the end users of our products.

Building relationships with consumers is crucial in meeting our growth ambitions. During the year, we invested in Consumer Care activities and communication tools to help our company move closer to the users. The ambition is to reach more than one million consumers.

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In order to effectively execute this growth strategy and to meet our commercial ambition for the coming years, we made the decision during the year to expand and strengthen our Executive Management. It now consists of Lars Rasmussen, President and CEO, Kristian Villumsen, EVP Chronic Care, Allan Rasmussen, EVP Global Operations, and Anders Lonning-Skovgaard, EVP and CFO. In connection with the management changes, our former CFO, Lene Skole, decided to leave Coloplast.

I will now review our financial highlights of the past year.

Coloplast released its full-year financial results for 2013/14 on 30 October, and the Annual Report and updated Corporate Responsibility Report were also released later that same day.

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3. Consolidated financial highlights for the 2013/2014 financial year

With our decent growth performance 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 9%, two percentage points higher than the year before. Revenue measured in Danish kroner was up by 7% to DKK 12,428 million from DKK 11,635 million last year.

The gross margin was 69%, against 68% last year.

EBIT before special items was up by 13% to DKK 4,147 million, with the EBIT margin before special items at 33%, versus 32% last year.

Net profit for the year before special items was DKK 3,166 million and DKK 2,390 million after special items.

“Special items” refers to a net provision of DKK 1 billion Coloplast made in the second quarter to cover possible settlements and other legal costs in lawsuits in the United States alleging injury resulting from use of transvaginal surgical mesh products designed to treat pelvic organ prolapse and stress urinary incontinence. This impacted the net profit for the year by DKK 776 million.

ROIC for the year before special items and after tax was 49%, against 44% last year. In other words, in the 2012/13 financial year, Coloplast earned DKK 44 for each DKK 100 invested in the company. In the past financial year, we earned DKK 49 per DKK 100 invested – and that's after tax. Our ROIC has improved consistently since the 2006/07 financial year, when it was at 6%. This is highly satisfactory and it bears witness to the ever-increasing efficiency of our company.

At 30 September 2014, Coloplast had 9,250 employees, of whom 7,652 worked in international locations. During the financial year, the number of employees rose by 8%. Our headcount is growing especially in sales and production, and this reflects the fact that our business is growing and investing in growth.

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As I told you previously, our overall organic growth rate was 9%.

The Ostomy Care business grew by 8%, driven mainly by the range of SenSura® ostomy care products and the Brava™ range of accessories in Europe and the USA.

Sales amounted to DKK 5,091 million.

Coloplast has retained its position as the global market leader in ostomy care products, holding 35–40% of the market. Market growth is estimated to have been 4–5%.

The Continance Care business grew by 10%. Growth was mainly driven by sales of SpeediCath® intermittent catheters, especially the compact catheters. Continance Care sales increased to DKK 4,438 million.

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

Sales in the Urology Care business increased by 9% to reach DKK 1,199 million.

Coloplast currently holds a 10–15% share of the overall global market for urology products, which will grow an estimated 3–5%.

Sales in the Wound & Skin Care business increased by 10% to a total of DKK 1,700 million.

Our growth rate in wound and skin care products is the highest in more than five years and clearly shows the positive performance of the wound care business following the successful turnaround.

Growth in the wound care market alone is estimated at 3-5%.

Coloplast holds about a 5–10% market share, making us the world's fourth-largest manufacturer of advanced wound care products.

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And now for developments in Coloplast's geographical markets.

In Europe, organic growth was 6%. Revenue was DKK 8,221 million, which amounted to 66% of our consolidated revenue.

Ostomy Care, Continence Care and Wound & Skin Care all reported satisfactory growth rates.

In other developed markets, organic growth was 10%. Revenue was DKK 2,479 million, which amounted to 20% of our consolidated revenue. Especially the US Ostomy Care and Continence Care businesses reported satisfactory growth.

In Emerging markets, organic growth was 24%. Revenue was DKK 1,728 million, which amounted to 14% of our consolidated revenue. Full-year growth was broadly based, with China, Brazil and Greece as solid contributors.

In other words, Coloplast is well positioned in the emerging markets, and I would note that these markets have a higher nominal growth rate than the markets we call “other established markets”.

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And now for our costs:

We continue to have our costs well under control.

Distribution costs, which include our sales and marketing costs, amounted to DKK 3,519 million, or 28% of revenue, which was consistent with last year.

Administrative expenses amounted to DKK 498 million, against DKK 533 million last year. Administrative expenses accounted for 4% of revenue, or one percentage point less than last year.

Our financial results for the 2013/14 financial year triggered tax payable for the group of DKK 1,070 million, including DKK 814 million in Denmark.

R&D costs were DKK 390 million and accounted for 3% of revenue, which was in line with last year.

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At DKK 10,379 million, total assets increased by DKK 815 million relative to last year.

During the year, equity decreased by DKK 486 million to DKK 6,283 million. The decrease was mainly due to dividend payments of DKK 2,320 million which exceeded the comprehensive income of DKK 2,247 million. The net effect of treasury shares acquired, employees' exercise of share options and tax on equity entries reduced equity by DKK 452 million.

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Your Board recommends that the company pays a year-end dividend of DKK 7.50 per share. When added to the interim dividend of DKK 4 per share paid in connection with the half-year

interim report, this will bring the overall dividend for the year to DKK 11.50 per share, as compared with DKK 10 last year, the total dividend payout for 2013/14 to DKK 2,423 million and the pay-out ratio to 101%.

In the second quarter of 2013/14, the Board of Directors resolved to establish a share buy-back programme for a total of DKK 1 billion running until the end of the 2014/15 financial year. The first half of the buy-back programme, for DKK 500 million, was launched in the second quarter of 2013/14 and was completed on 18 August 2014. The second half of the share buy-back programme is expected to commence in early 2015.

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On the final business day of the 2012/13 financial year, Coloplast was quoted on NASDAQ Copenhagen at a price of DKK 314 per share. On the final day of the financial year under review, our shares closed at DKK 494, which corresponds to an increase of 57%. Including the dividends Coloplast paid out in December 2013 and after the release of the H1 Interim report, Coloplast shares have produced a return on investment of 62%. By comparison, an investment in the C20 index during the same period yielded a return of 37%. In other words, Coloplast shares performed quite well during the financial year under review. At lunchtime today, the share price was DKK 528.

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And now for our financial forecasts.

Coloplast maintains the long-term financial guidance of 7-10% sales

growth per year and an EBIT margin improvement of 0.5-1.0 percentage point per year.

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For 2014/15, we expect organic revenue growth of about 9% at constant exchange rates and of about 11% in DKK.

We expect an EBIT margin of about 34%, both at constant exchange rates and in DKK.

Capital expenditure is expected to be in the neighbourhood of DKK 650 million.

The effective tax rate is expected to be about 24%.

And this marks the end of my report today. Once again, I am very pleased with our performance of the past year. Coloplast has become an even better company for everyone involved.

Let me conclude by once again extending a Thank You to our employees, managers and our executive team for a job well done and to my colleagues on the Board of Directors for their good and constructive collaboration. Thank you!

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