

COLOPLAST

Moderator: Lars Rasmussen
June 16, 2015
11:00 a.m. GMT

Operator: This is Conference # 953886

Thank you for standing by, and welcome to the Change of Financial Guidance for 2014 and '15 conference call. At this time, all participants are in a listen-only mode. There will be a presentation followed by a question and answer session, at which time if you wish to ask a question, you will need to press star and 1 on your telephone. I must advise you that this conference is being recorded today, on Tuesday the 16th of June, 2015. And I would now like to hand the conference over to your speaker today, Lars Rasmussen. Please go ahead, sir.

Lars Rasmussen: Thank you very much, and welcome to this Change of Financial Guidance for 2014-15. So we have lowered our (kinetic) revenue expectation from 8 to 9 percent down to 7 percent, which is from 13 to 14 percent in Danish krone down to 12 percent in Danish krone.

And we have lowered our EBIT margin from 34 percent to 32 percent, and that is both in constant exchange rates and in Danish krone. And there are two reasons why we have lowered our growth guidance. One is UK, and the other is US, and I'll just take you briefly through those.

So if we go back to Q1 in 2014-15, the UK performance in our home (cap) business in the UK charter went from strong single digit revenue growth, to negative revenue growth as a result of our inadequate response to NSS regulatory change involving prescription handling.

We said in that quarter that the needed changes in charter would be implemented within 6 to 9 months, and that growth rates within charter would stay effective after the implementation had been finalized. In Q2, we

basically reiterated that, and we also saw an improved momentum in charter, but performance was flat.

And we said that within 3 to 6 months, we would need to implement – we would have done the needed changes. Today we can see that our expectations with regards to the pick up here in Q3 and 4 have been optimistic, and therefore we think it takes to the end of the fiscal year to do all of the needed changes.

It's especially the time to train people in the new system, that takes time for us. What we can also see is that we are on the other hand having a very successful launch of (Mu), and we have a net positive inflow of patients into charter, and we have not lost market yet due to this development. So it is a temporary situation, but unfortunately a little longer than what we thought in the beginning.

For the US then, in the first quarter we talked about our distributor buying patterns, and that actually came out as we expected, so we see a pick up in Q2, and expect to see pick up in Q3 also. But what is – what is hurting us in the US is our lack of ability to run external marketing campaigns, due to the Department of Justice subpoena.

That was issued first to us but which is now in effect, also with a number of our distribution partners, and therefore there is some uncertainty on this. So those are the two reasons, it's been the same reasons since the beginning of the year, but it takes – it takes longer to get out of the issues than what we thought at the beginning of the year.

So if you look then at the EBIT changes, then we have lowered our EBIT margin by 2 percentage points. Approximately half is coming from the lower sales, and the other half are for three issues. One is the provision for the DOJ situation, where we have taken an undisclosed provision for the cost associated with that.

DOJ have finished their investigations, and we are in dialogue with them, and they have informed us about the conclusion. We are not in agreement with

their conclusion, however in the interest of the business, we have agreed to pursue a settlement route, and that's what we are provisioned for.

We have also increased the provision for (bet debt) in southern Europe, very much related to the situation in Greece. And finally, we have – we have fully written down the stocks and so on, everything we had on a negative pressure (which therapy) deal with (Devon), so that's the other half of the lowering of the EBIT.

So that's basically where we are, and of course not a situation that we are very happy with. And with that, I would like to hand you back to Q&As, and I forgot to say in the beginning that I'm joined by Anders Lonning-Skovgaard, who is the CFO of the company, and our investor relations team. So we are ready to take questions.

Operator: Thank you very much, sir. As a reminder, please press star and 1 on your telephone if you wish to ask a question today, and wait for your name to be announced. And your first question comes from the line of Ian Douglas-Pennant, from UBS. Please ask your question.

Ian Douglas-Pennant: Hi, thanks very much for taking me on. So as a result of the – of the DOJ, you know, assessment that you've – (flight) that you want to take there, are there any behaviors that you're going to have to change in the long time – in the long term?

I mean should we expect that these external marketing campaigns are never going to come back? And in the light of that, how do you feel confident that your longer-term revenue target is still valid?

And then second, really, can you break out the importance of the UK and the US factors driving the revenue downgrade? You know, I can see that the data that say you're not losing market share in the UK. Within your original guidance, were you expecting to increase market share in the UK? I mean how should we think about that?

Lars Rasmussen: Yes. Thank you for those questions, and it's – I think the first question that you are asking is a question which we are all having on our minds, what do

this DOJ investigation means for our ability to execute our target to consumer strategy in the US?

As I said, Department of Justice have finished their investigations, they have also played back to us what they have found. And it's our expectation that we will be able to fully run our target to consumer strategies as they were planned to be run.

That also includes that we would be able to implement care, also the next (peritions) of care exactly as we expected to do. So we feel that we are – that we are in a very comfortable situation in regards to our long-term strategy on a target to consumer in the US. In the – in the UK and our ability to run the business there, precisely what is it that you're looking for, Ian?

Ian Douglas-Pennant: Sorry, in terms of the guidance downgrade for the (EA), you helped us think about the – where the EBIT downgrade is coming from – the EBIT margin guidance downgrade, but the revenue margin downgrade. I mean is the UK just as important as the US in terms of where your disappointment has come from, or is one more important than the other?

Lars Rasmussen: That's a very good question. It's – the – I don't know if we are able to at this point in time split out exactly how that is. We have half of the – half of the downgrade on the EBIT comes from the revenue loss, so to say, or the missing revenue, and the other half come from the – that is from US and UK.

And the other half comes from the three things that I mentioned on Department of Justice and southern Europe, and so on. So the half that comes from US and UK, that's the one that you'd like to have split out further, but I haven't prepared for that, but I would say that UK is of course important to us, and that's probably a bit more than half, but that's just back of the envelope.

Ian Douglas-Pennant: OK, great. Thanks very much.

Lars Rasmussen: Yes.

Operator: Thank you very much. Your next question comes from the line of Alex Kleban, from Barclays. Please ask your question.

Alex Kleban: Hi, thanks for taking the questions. I had two, so first one, and I ask that you can give us as much detail as you can, but how closely aligned do you think the provision you're taking on DOJ will be with the ultimate settlement, or at least with the kind of conversations you're having now with the DOJ? And I'll ask the second one as a follow up.

Lars Rasmussen: I'm not sure I follow your question. Could you ...

Alex Kleban: In other words ...

Lars Rasmussen: ... elaborate just a little bit?

Alex Kleban: Yes, so you're taking a provision here, and you're in discussions with DOJ. You've received what sounds like a final kind of ruling from them, or at least a final opinion from them. To what extent is that provision you're taking – and you mentioned a settlement. Is that going to be close to what we need to think about for the settlement you could potentially make, or is it – is it too early to say?

Lars Rasmussen: Since we haven't finished all of our negotiations so to speak, it's – you know, I can't be final on this, this is our estimate. But it's an estimate based on what we know and we know quite a bit at this point in time.

Alex Kleban: And is that driven by in terms of A, you know, an amount of sales that you've had in the US, or amount of profitability in the US? Can you give us some color on what factors are going into that provision?

Lars Rasmussen: No, what I – since we have not finished that, we cannot give you more flavor on it, but if we didn't feel that we were in – within a range which we – which we feel is certain, then we would not talk about it.

Alex Kleban: OK, fair enough. And then the second question was just on surgical urology in the US. So that was weak last quarter. Is anything in the guidance downgrade related to surgical urology, (IN), how does that look in the US in the quarter?

Lars Rasmussen: Well I can't – I can't update you on the – on the current quarter apart from what we see on the US and the UK, so we'll come back to that when we finish the quarter, but you know, everything that we learned that maybe I should just give you a few more insights on this.

The reason why we are at this point in time coming with a change to guidance, every month we have a monthly performance review where we go through the performance of the – of the different units, and also their take on the future.

And we had such a meeting yesterday, and it's basically based on the two things that I talked about here, that we – that we have changed our guidance. So it's – those are the explanations.

Alex Kleban: OK, so I guess it's fair to say then that at this stage, what you know of surgical urology, excuse me, this far is actually already factored in to what you're doing today. OK, that's all from me, thank you very much.

Operator: Thank you very much. And your next question comes from the line of Martin Brunniger, from Jefferies. Please ask your question.

Martin Brunniger: Hi. Thanks for taking my questions. I have just one question actually, you said you have not lost market share despite factors that you mentioned. Can you confirm ...

Lars Rasmussen: In the UK – in the UK.

Martin Brunniger: In the UK, yes, I know, and if you – have you won market share in a declining market you think, or do you think that – can you catch up with that – with that trend? Maybe you can elaborate on that a little bit, because it seems like you've mentioned it in the last quarter as well, it seems like this could become a chronic problem. Thank you. That's all my question I had today.

Lars Rasmussen: That – yes, that what could become a chronic problem?

Martin Brunniger: The situation in the UK with the – with the home care business.

Lars Rasmussen: Ah, well OK, thank you very much. I – that's, you know, I think you're touching on a very important topic. That's what does this mean for the future

of the – of the UK charter business. I think that we come out – we will come out very strongly of this, but of course we have lost – we have lost customers in the – in the home care business, there's no doubt about that.

We have probably primarily lost customers that are not using Coloplast products, because we are serving everybody who is in the market, and we are having all competitors' products at the sales also, but the – but do I expect that I will start to grow from the new level that we have when we are fully through this? Of course I do.

Do I see that we are – that we are – things are progressing extremely well in the UK when it comes to (ostomy) and the launch of new (Mu)? Yes definitely. And we are also now launching a (speedy compact eve) in the – in the UK, so I actually expect us to be very strong again in the UK when we are on the other side of this.

The fact that we – even though that we have so big problems as we have right now in the UK, the fact that we are not losing market shares in this situation, just speaks to the strength of the business that we have then, the strength of the product portfolio. So I take this as a low point from where we are actually progressing quite well.

Martin Brunniger: And you don't think there will be pricing pressures following that trend? I mean I'm just thinking of the home care business on the service side, healthcare at home, they have been quite successful, and the (energy) has put so much pressure on them, the EBIT margin's gone really down significantly.

Is there a risk on the product side as well? From what you're doing is slightly different, I appreciate that, but still it is a trend that the (energy) is putting quite a lot of pressure on prices at the moment.

Lars Rasmussen: I think that the pricing pressure that we see is not bigger at this point in time than at any other point in time over the last few years where we also had the financial crisis. I can't see why this change, or that the – our current problems, which are basically on (force than the) Coloplast problems, why they – why they would trigger any further price pressure than what we see now.

(We live with) price pressure, we have done that for many years, and they are here to stay, we know that, but I don't see them accelerating in the UK.

Martin Brunninger: OK, thanks very much.

Lars Rasmussen: You're welcome.

Operator: Thank you very much. And your next question comes from the line of Ed Ridley from Bank of America. Please ask your question.

Ed Ridley: Thank you. Thanks very much. Firstly, just on guidance, Lars, I if could follow up on the guidance, you're also maintaining your longer-term EBIT margin development guidance. Is that sort of 50 to 100 basis points a year from the, as it were, underlying margin guidance that you're giving (fully of 15) of what is roughly 33 percent, or from the reported margin? That would be my first question.

Lars Rasmussen: That's a – that's a very good question, and we will come back to that when we are – when we are guiding for the New Year. It's not a question that we have been preparing for for today.

Ed Ridley: OK, fair enough. And just a follow up on (Devon Medical), I don't know if you want to take the opportunity to talk about that, just in terms of the – what has been going on there, and should we say the (Devon Medical) response, which is – which is in the market.

Lars Rasmussen: But there's – are you – are you talking about the legal case, or what?

Ed Ridley: Yes, exactly, if you could just ...

Lars Rasmussen: But you know, it's an ongoing case, it's important, or it's impossible for me really to comment on it. We – it's actually – we're just in the situation here where we – where we say let's take out of the books what we have, because this is a legal situation. So that's why we do it. But I can't comment on the – on the ongoing case, it's hardly started, it's very new actually.

Ed Ridley: Fair enough. Thanks very much.

Operator: Thank you very much. And your next question comes from the line of Veronika Dubajova, from Goldman Sachs. Please ask your question.

Veronika Dubajova: Good morning, gentlemen, and thank you for taking my questions. I just have a couple question follow ups on the DOJ investigation, and I think the first one is why do you think the scrutiny, or the level of marketing activities has decelerated so significantly in the last quarter or so?

And then as a follow up to that, I appreciate that you feel that your activities won't be impacted, but have you had the same conversations with your dealers and distributors, and do you (set in sense) once the – do you sense actually from them that once the investigation disappears, they're happy to resume the activities as they used to with you?

Lars Rasmussen: It's a little bit of a rippling effect, because it started with Coloplast, and then you have seen that over time, it's been spreading to the – to the distributors. So therefore we are – we are much further progressed in this matter than the other parties involved at this point in time.

So therefore we know about the business practices that we have had in the past, and of course I can only vouch for what I know about Coloplast, and the business practices that we have been conducting, and we see no reason why we should not be able to run direct campaigns going forward. But of course you – we need to see that the dealers will go through with the same process as we have been through.

Veronika Dubajova: OK, and do you, Lars, have any views on when that process might conclude for them?

Lars Rasmussen: No.

Veronika Dubajova: OK. And then if I were to look at your medium term guidance of 7 to 10 percent top line growth, and assume that you're unable to do any marketing activities via dealers and distributors, and instead any activities that you undertake have to be direct on your behalf, do you venture a guess for what that guidance range would look like under that scenario?

Lars Rasmussen: No, but that's a very good question, I think I will park that for next time that we are giving guidance, because that's probably be relevant to speak about.

Veronika Dubajova: OK, thanks very much.

Operator: Thank you very much, and your next question comes from the line of Martin Parkhoj, from Danske Bank. Please ask your question.

Martin Parkhoj: Yes, two questions. Again, back to the US market, I just want to dig a little bit more into it, because as you say, you see some low sales from lagging campaign activity. Do you know if this has actually hurt market growth for the products where you effected, or is it isolated US been hurt, because I guess that's at least another view of your competitors that also is included in the (equation). And then ...

Lars Rasmussen: No, that's – let me take that first, because that's a good question. What we said in the first quarter was that we could see that our assessment was impacted on – we had a lot of assessment sales last year due to our direct campaign activities, and it's been much harder for to lift this year, because we have not had the same kind of pressure on the markets.

So I would actually expect that in the US that we have probably – we are probably impacting the growth of the assessment market, but I'm guessing, I don't have facts to underline this, but I'm just – I'm just – I'm just saying that we have significantly lower sales on assessments this year, and we have significantly lower prices in the market.

Martin Parkhoj: And then second question, just to be 100 percent sure, does this have any kind of impact on your investments on additional sales initiatives, where both for this year and for the coming years?

Lars Rasmussen: As we said at the capital market, they not long ago, then we have decided to keep the pressure on the investments, because we fully acknowledge that top line growth is extremely important, and we think that the long-term guidance we have is the right one.

We think that is still valid, and therefore we keep investing to deliver in that specific range that we have laid out, which is 7 to 10 top line growth, and 50 to 100 basis points expansion on the bottom line every year.

Martin Parkhoj: But the expansion that we – you had expected for UK ...

Lars Rasmussen: Yes.

Martin Parkhoj: ... I guess that is not – which I guess you had in some steps, I guess that that is not folding out as you initially had expected.

Lars Rasmussen: For this year? No. I have to say that this year is – in that sense, this year is extremely difficult, because when we did the guidance for this year, we had absolutely no idea about the issues that we – that have unfolded in the UK, so I consider that to be a one-off, and I think that we have – we have dealt, and are dealing with it in this – the most force – the strongest way that we – that we're able to do, and that's certainly not something that I expect to see every year.

Mind you that this year, well we are going to deliver 7 percent growth in a year where we see – where we don't see at all the – or the impact growth-wise that we would expect to see from both US and UK. They are our number one and two biggest markets at all, and they're not performing like they should, so that talks a little bit to what the rest of the business is really doing.

Martin Parkhoj: Yes. Thanks.

Operator: Thank you very much, and your next question comes from the line of Yi-Dan Wang, from Deutsche Bank. Please ask your question.

Yi-Dan Wang: OK, thank you very much. I have I think three questions. The first question is relating to the external campaigns that you're able to run. When do you think you could initiate that for yourself, and to what extent do you actually require the collaboration of your distributors to – for that to have a meaningful impact on your – on your business?

And then the second question is on Greece. I think you've had – you've been in this sort of situation before at the height of the financial crisis, but can you give us some color on you know, how big of a I suppose challenge that – to your distributors facing this time round relative to last time, and how much of provision you actually had to use last time?

And then the third question is on the I suppose the relative sizes – the (NPW) business – WT write-off, that seems to be – you were in the pilot launch, so I was kind of surprised that you actually mentioned that as a factor, given that it should be quite immaterial as a factor.

Lars Rasmussen: Yes, Anders will talk to Greece and the negative pressure (with therapy), so he will – he will start out with that.

Anders Lonning-Skovgaard: So in terms of Greece, yes, in 2008-2009 there was also some financial challenges in Greece, but we managed also in that period to handle our Greece business without any bad debt. This time we also see some challenges due to the economic situation in Greece, and we have decided to make a provision for bad debt in Greece. I'm not going to disclose any numbers. In relation to the – to the second question around the NPWT, can you just repeat that?

Yi-Dan Wang: Yes, so the – I think part of the I suppose non-revenue driven downgrade to your margin you mentioned is due to writing down the NPWT inventory. My understanding is that you're in a pilot launch, and so I wasn't expecting there to be much inventory at all, so somewhat surprised that you actually mentioned it. So perhaps that is bigger than what I thought it would be, if you could comment on that.

Anders Lonning-Skovgaard: So the NPWT as you might recall, we had a pilot in Brazil, in Switzerland, and also in Greece, and then we (overed the ottoman, the winner) started to plan for a global launch, and that's why we have had a stock related to that. But due to the safety situation of the product, we decided to stop the cooperation with (Devon).

Yi-Dan Wang: OK, so maybe it would be helpful to just comment, I suppose, prioritize the size of the three non-revenue related downgrades to your margin, which is the biggest and which is the smallest, would be helpful?

Anders Lonning-Skovgaard: We're not going to disclose any further on that at this point in time.

Yi-Dan Wang: OK.

Lars Rasmussen: When it comes to – when it comes to the external campaigns, or the campaigns that we're doing in the US as it's quite clear that right now we are very – we are very limited in our abilities to do external campaigns, actually they've come to a complete full stop.

Which means that we – that we are running internal campaigns, which we can do of course, but it's – it is – with the way that we're running our business in the US right now, it's more – it had more traction when we do it in a collaboration with external partners.

But of course this means we will have to look at how we can step up our abilities to do internal campaigns, and to run more growth that way around, and that's just how it is. I can't give you a time frame on when the Department of Justice is fully done, and therefore it's hard for me to comment, you know, on the timing of this.

Yi-Dan Wang: OK, so you won't be able to start any internal – when you say internal, you just mean Coloplast-only campaigns, and external is actually involving dealers.

Lars Rasmussen: Yes, that is actually – that is – those are running as we speak.

Yi-Dan Wang: OK, so then it's only the external ones that the Department of Justice is limiting you on at this stage?

Lars Rasmussen: No, they are not limiting us. What we are saying here is that because we – I think that we have all been in doubt, but what is – what is it that the Department of Justice is really looking for? Now we are – we know – we

know what is the outcome for Coloplast, because that is where we are at this point in time.

And we feel that we are ready now to do also external campaigns, but you need an external partner in order to do that, and the external partners are still on the investigation, so they are – do not have the same clarity on their business practices as we have, and therefore we don't do any external campaigns right now, because the dealers they have the same doubts as we had, so what is this really about.

Yi-Dan Wang: OK, and do you have any sense of how soon after the DOJ started speaking to you that they started to speak to the dealers, like how much of a lag there has been?

Lars Rasmussen: No, I can't guide you on that, and I don't even know if – because they have completed different scale of business than what we have, many of them, so I wouldn't know what's the – what's the process and so on, so yes.

Yi-Dan Wang: OK, so but the bottom line is you don't need to change much of what you've been planning, so just a timing thing that we could start to see these activities resume again. Thank you. All right, perfect, thank you.

Operator: Thank you very much. And your next question comes from the line of Oliver Metzger, from Commerzbank. Please ask your question.

Oliver Metzger: Hi. Thank you, Lars. Only one question left, it's do you think that beneath the lower marketing activities in the US, there are also factor of more aggressive pricing of competitor (in Othnibax), which had potentially a negative impact on your guidance on US market?

Lars Rasmussen: What I don't – I don't think so. We are also having (Mu) in the US market now, and we see – we actually see that the interest is very high. We are winning several hospitals with this new assortment, so I don't see that, and yes. No – so no, I have to say no to that.

Oliver Metzger: OK, great. Thank you.

Lars Rasmussen: And then I think we open up for the last question.

Operator: And your last question comes from the line of Scott Bardo, from Berenberg. Please ask your question.

Scott Bardo: Thanks very much for taking my question, Lars. You know, I'm quite encouraged to hear that you feel that you can continue with your direct to consumer initiatives in the North American market. Obviously contingent on – contingent on the master dealers also sort of concurring with your vision.

What I'm interested to understand is do you see heightened compliance costs, or an increased level of regulation? Can you discount the fact that you're entering into some deferred prosecution agreement, or some sort of corporate integrity agreement which might, if you like, limit or regulate some of the activities in North America?

So that would be one question, please. And just a follow up, do you think any of this activity limits the company's ability to secure GPO contracts in (ostomy) or dents the strategy of value upgrading (speedy cath) in the US at a time of sort of patent expire at 2017? Thank you.

Lars Rasmussen: I don't think that that's – and I have to say that we are quite arranged in these negotiations. I don't see that we – that we will have any extra burden of either cost or processes in order to conduct our business in the US. I think we fully understand where we are.

And so over and – I don't think that we have anything over and above the constant pressure which we always have on a business for to make sure that when you run a global business, that you are compliant with both local regulation and (your own code of) conduct, and that is – that is issues that we're always working on to make sure that we are compliant, but apart from that, no, I don't think that this is going to have any impact.

Scott Bardo: And also, you'd extend those comments and sort of your potential to get on GPO contracts and your sort of value upgrade strategies for (speedy cath), you don't – you don't think that these things are connected at all, or shouldn't be impacted by these developments?

Lars Rasmussen: I think it's a very good question. I – it's hard for me to say that – to say yes or no to this, because I wouldn't expect it to, but it's not – it's not of course an area where I have complete insight, but yes, I don't expect that, Scott.

Scott Bardo: All right. Thanks very much, Lars, appreciate it.

Lars Rasmussen: OK, thank you very much for the interest, and this is the conclusion of the meeting.

Operator: Thank you very much. That does conclude the conference call for today. Thank you all for participating. You may now disconnect. Speakers, please stay on the line.

END