Coloplast A/S
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Chaired by Lars Rasmussen

Lars Rasmussen

Good afternoon and welcome to this Q2 2011/12 conference call. I am Lars Rasmussen, CEO of Coloplast, and I am joined by CFO, Lene Skole, and our IR team. As usual, Lene and I will start with a short presentation and then we open up for questions.

So please turn to slide number 3. I am satisfied with the results we have released today. As expected, our growth rebounded in Q2, especially due to a normalisation of the growth in Europe. Also Russia and China continued their strong performance and our US plan is firmly on track. All in all, we ended the first six months with 6% organic growth and 7% growth in DKK. We also continued to deliver satisfying gross margins as our global operations deliver on their plans, as presented to you at our Capital Market Day last year. We reported a solid EBIT margin of 27% for the first six months of 2011/12 and 29% for Q2 in isolation.

Today we will update you on a number of changes approved by the Board of Directors this morning. We have updated our corporate strategy and consequently our global sales organisation is reorganised and finally we have made changes to our capital structure. We will provide you with more details on these topics a little later in this presentation.

For the full year we continue to expect around 6% organic growth and we expect around 8% reported growth based on current exchange rates. For the EBIT margin, we now expect to deliver around 28% in local currencies and around 29% in DKK based on our current exchange rates. Lene will provide more details on the guidance at the end of this presentation.

Please turn to slide number 4. Revenues were up by 6% organically and 7% in DKK and amounted to DKK 5.3 billion. Ostomy organic growth was satisfactory at 6% both in the quarter and in the first half of 2011/12. The growth was driven by good performance in most European markets, especially in the UK and Germany, and we saw continued strong growth in Russia and China. The beginning of April we launched a new range of ostomy accessories under the name of Brava. The range consists of new products and updates of existing products that can help people with an ostomy reduce leakage and improve care for their skin. In this fiscal year the Brava range is to be rolled out in nine countries from April through July. The market for accessories is estimated to grow at 6-8%, with an estimated market size of around DKK 1 billion. We currently have less than 10% of that market.

In continence care, organic growth was 9% in the first half of 2011/12 and 13% for the quarter. This is a very satisfying growth and partly expected as the Q1 issues in France and emerging markets normalised during Q2. We also continue to see satisfying growth rates in the US, driven by both the SelfCath and the SpeedyCath product ranges.

In total, our chronic care businesses grew by 9% in Q2 and 7% for the first half of 2012. In urology care, organic growth was 6% in the first half of 2011/12 and 8% for Q2 in isolation. Sales of female slings continued to decline while sales of pelvic flow repair remained satisfactory in Q2. Sales growth of penile implants increased for the third quarter in a row and we interpret this as a sign of normalisation of implant procedures in the US markets. In our European urology business, growth picked up in Q2, driven by our endourology business. The launch of our LTS mini sling in the US may be impacted by the outcomes of the current FDA investigation on second duration mini slings. The launch is still set for mid-2012 but this may be delayed depending on potential additional documentation required by the FDA. We have submitted the required data and are now awaiting FDA.

Our wound and skin care saw organic growth of -1% in the first half of 2011/12 and +1% in Q2 2011/12. In the first half of 2011/12 our wound care business declined by 5%. It continues to be impacted by strong competition in the main European markets. We also saw reductions of stock at our Greek distributor in Q1 and price reductions in France implemented in April last year. Both our US skin care business and our contract manufacturing saw very satisfying growth in Q2.

Looking at geographies, Europe grew 5% organically in the first half of 2011/12 and 7% for Q2. This is very satisfactory and especially continence care rebounded as growth in France normalised. Organic revenue growth in the Americas was 9% both for the quarter and year-to-date. The US management is continuously executing in accordance with plan whereas several Latin American markets saw declining growth rates in Q2. Revenues in the rest of the world grew 8% organically in the first six months of 2011/12 whereas the quarterly organic growth was 12%. Japan saw a low growth in Q2 due to high stock-filling last year in connection with the earthquake in March 2011. China continued its strong performance in Q2 and growth in the region in general recovered from a large tender impact in Q1.

Please turn to slide number 5. I am very pleased to present to you some of the key elements of our updated strategy. I will cover the organic growth part of our updates strategy and Lene will cover the impact hereof in connection to M&A activities and the capital structure.

Over the past three years we have invested in professionalising our sales and marketing organisations, renewed our product assign and innovation process and optimised on costs throughout the organisation. This has resulted in above market growth rates and a significant margin expansion while our sales cost to sales ratio has remained among the highest for our peers. On this basis, we have now a top professional sales organisation and a very strong pipeline of new products and I am confident that we will deliver higher growth in the coming years.

Going forward, we will increase our focus on growth in the emerging markets whilst continuing to build on our position in developed markets. The overall aim continues to be

to deliver increasing value creation in Coloplast and we believe we can do that best by increasing our focus on growth. This updated strategy constitutes a shift in our focus. Our focus will be less on cost and more on growth. Hence we have today reorganised our global sales organisation and we are now ready to more aggressively invest in growth initiatives.

That concludes my part of the presentation. Lene will now provide more details on the financials. Please turn to slide number 6.

Lene Skole

Thank you, Lars, and we are now on slide number 6. Gross profit amounted to DKK 3.5 billion, equal to a gross margin of 66%. This is an improvement of 2% compared to the same period last year. The weakening of the Hungarian forint has had a positive but limited impact on the gross margin so far. Continued efficiencies in the production economy, lower salary expenses from transfer of production last year and higher absolute sales were key drivers in this positive gross margin development.

The SGA to sales ratio was 35%, the same level as at full year 2010/11. The SGA in the first half of 2011/12 included extraordinary items of almost DKK 60 million due to a settlement of an arbitration case and an extra bonus payment to all employees, both incurred in Q1. Furthermore, we have in the first half of 2011/12 increased our provisions for bad debt in Southern Europe by a total of DKK 32 million.

The R&D to sales came in at 3% and below previous spend. The effects from the restructuring of the R&D organisation in the second half of 2010/11 reduced the overall spend compared to last year and the decreasing trend you have seen reflects the increased efficiency in our product development.

All in all, this results in a reported EBIT margin of 27% compared with 24% last year. Net of currency impact to EBIT margin was also 27%. Our net profit increased by 24% to almost DKK 1 billion, corresponding to a diluted earnings per share of DKK 23.4 against DKK 18.7 in the same period last year. Capex amounted to DKK 144 million, corresponding to a capex to sales ratio of 3%, reflecting continued low spend. Free cash flow was DKK 668 million compared with DKK 179 million in the same period last year. The increased cash flow compared with last year was due to increased earnings, working capital increasing less than in the same period last year, decrease in taxes paid and the acquisition of Empathy Medical Devices last year. The effects were partly offset by an increase in net loss of realised foreign exchange hedging contracts. Return on invested capital after tax was 33%, up 7% from last year. Net interest bearing debt to EBITDA ended at 0.1 against 0.7 at the end of Q2 last year.

Now please turn to slide number 7. As a consequence of our updated strategy, we have revised our target for the capital structure. Our updated strategy focuses on organic growth opportunities and we have identified sufficient organic growth opportunities to continue to outgrow the market. We will continue to look at acquisitions but they are not a prerequisite for obtaining above market growth. If and when M&A opportunities come along, they will obviously be given the proper attention. Therefore, the Board of Directors has decided to no longer accumulate cash to fund a major acquisition and to cancel the target of a net debt to EBITDA of 1.5 to 2.5. We do not aim to have excess cash in our

balance sheet but will keep liquidity contingencies of minimum of DKK 1 billion in cash and marketable securities.

The Board has reiterated the dividend policy, stating that excess liquidity is returned to shareholders through a combination of dividend and share buy-back, including a pay-out ratio of around 30%. As a consequence of our strong cash generation, it may become necessary to distribute extraordinary dividends in order not to accumulate excess liquidity. The first part of the 2011/12 share buy-back programme of DKK 500 million was started in February and at the end of Q2 we have bought back shares for a total of DKK 160 million.

Now please turn to slide number 8. For 2011/12 we still expect to grow around 6% organically and around 8% in DKK at the current currency exchange rates. In particular, the strengthening of the US dollar and the British pound sterling impact our guidance in Danish krone. Our growth expectations for the year assume that performance will continue to improve in our US business, primarily within chronic care, and that a certain pick-up of our wound care business will occur during the fiscal year. In Q2 and Q2 many markets experienced fluctuations in distributor orders and we expect these fluctuations to continue. Further we expect lower growth in Q3 as the comparable quarter last year was very high.

For 2011/12 we have upward-adjusted our EBIT margin guidance in constant currencies to around 28% from previously around 27%. On the basis of current exchange rates, especially the stronger British pound sterling and the weakening Hungarian forint, we at the same time raised the guidance in DKK to around 29% from previously around 28%. We continue to see some uncertainty in especially Southern Europe but, with Q2 also showing a strong EBIT margin, we now find it right to adjust the guidance. Our capex guidance for 2011/12 is unchanged at around DKK 300 million, corresponding to 3% of sales. Finally, our effective tax rate is also unchanged at 25-26%.

In connection with the update of the strategies, the Board has revisited our long term ambition. It continues to be our ambition to outgrow the market and to deliver margins in line with the best performing medical device companies. We believe that this is still ambitious as not many companies who are also enjoying market leadership have been able to consistently outgrow the market and at the same time be among the top performers when it comes to profitability. We are looking forward to providing you with more detail and information on our updated strategy at our Capital Markets Day in London on June 13.

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

Questions and Answers

Ian Douglas Pennant – UBS

Hi, it's Ian Douglas Pennant at UBS – just a couple of questions. Firstly, on your R&D spend, that was I think a bit ahead of market expectations there – sorry, a lower number as it were. Can you talk about whether that is the kind of level we can look to going

forward or is there some kind of one-offs maybe that helped you there? Then, secondly, I wonder whether you could just talk in a bit more detail about how the turnaround of the US business is going. I know that has generated some interest over the part few months. Thanks.

The R&D spend, no, you cannot exactly expect a level like this. I think the most interesting thing here is that we think that we have a very strong pipeline of new products on the way that we will launch over the next 24 months and that is also what we are building the revised strategy on that we communicated today. The level of the R&D spend will vary from one quarter to the next because we are buying quite a bit of the things that we are doing outside of the Company, so therefore you cannot take this level for granted. We have lowered the level inside of Coloplast due to a programme we ran last year which is called [Lean]... but it is not the same as we have not committed to this, whatever it takes to have the right pipeline of new products going forward.

On the US business, we are satisfied with the progress of our US business. It is now almost a year ago we changed the organisation or the management team in the US and we are in double digit territory when it comes to growth, which we are quite satisfied with.

Thanks very much.

Klaus Madsen – Handelsbank

Hello, it's Klaus Madsen from Handelsbank. My first question relates to the very nice rebound we see in Europe and in continents. Could you comment more specifically on how much is France contributing to the normalisation of the situation in France contributing in this quarter, if I remember correctly, you estimated it at roughly a 1% negative impact in Q1 this year. Is it fair to assume that there's a similar 1% swing back in this quarter? Then on your growth strategy you mentioned you have identified sufficient organic growth opportunities to drive above market growth. Could you comment maybe on some of the key initiatives here or perhaps point to whether this to a significant degree includes expansion into adjacent or related areas through your current businesses? Those are my key questions.

When it comes to France, it's correct that we specifically mentioned that we saw lower purchase in Q1 from our distributors and we also claimed that we could see on what we call the CS figures that they were selling as they normally would do and we have seen a normalisation of that, so they have come back to a normal level. We also had what was the () problem in Q1 where we are no longer allowed to sell the urisheath and the bags at the same point in time and therefore they have been split and we saw a reaction to that. That has all been normalised but I would also like to add that the UK has also had a very nice performance in this quarter in continence care and the same goes for the US. So it's not just France that has normalised. It is actually a strong quarter when it comes to the continence care business.

With respect to our growth strategy or the revised strategy that we came out with, we are shifting focus from the cost side to more growth. The most important thing here is that we actually had a strategy, if you go three years back, where we were very clear on the fact that we wanted to grow our chronic care business in Europe and we wanted to do that almost as priority numbers 1, 2 and 3. Then we, of course, did a lot with all the other

markets. What we say now is we think it's very important that we grow all over the place. So going forward, we are going to grow quite significantly in Europe but we are going to put even more emphasis on growing in the US and growing in China and Russia and so on and so forth. So that is what we have organised for so that we are able to handle all the extra investments that we are interested in doing.

The adjacencies, when we think about adjacencies we think mostly about accessories, which I just briefly talked about when I was introducing today, and also bowel management and there is no doubt that bowel management is for the time being more an investment case in Europe than outside of Europe where accessories is launched across the board but first and foremost in Europe and then the other continents will follow.

You mentioned I think in a writer's interview that you are willing to invest already up to DKK 1 billion in your organic growth strategy here. How should we interpret that figure, if you could be more specific on that?

Well, I have been asked to be very specific on what we want to invest exactly where. What we can say at this point in time is that we are willing to invest more in growth and we are especially willing to invest in growth outside of Europe. It will comprise all of our business areas so they are not earmarked for either ostomy or continence care or wound care or urology. It will be for all of the business areas that we are working on and probably one of the business areas that will enjoy this the most I would think, at least when you look at the numbers, would be wound care because wound care in Europe is not a high growth market but it is certainly outside of Europe. But we are going to invest in all of our business areas outside of Europe. That is what we are aiming at.

Right and how should we link the 1 billion investment to your margin progression and your margin ambition?

I think it's a fair question and we had also anticipated that that will come forward. The way that you should think about it is that we do have a quite efficient company today. We are still committed to make the Company even more efficient and therefore we think we can do this investment that we are talking about without being in a situation where you would see that our bottom line is starting to drop off.

Right, but we shouldn't necessarily anticipate much expenses – is that also a fair assumption now that you have reached a very satisfactory level?

I think what we are trying to say is that we are committed to grow more than the market and we are committed to try to get the Company to be one of the most profitable companies, best-performing companies on the bottom line among the peer group that we are looking at. We don't think that we will be in a situation where we have used up all of our (), so we don't we believe that we are going to decline on this.

Lene Skole

Maybe if I could just add something and you will get it from a slightly more financial point of view, then you can say that we actually expect our distribution to sales ratio to remain more or less around where it is. We have, of course, over the past years also been investing quite heavily and it has been mainly investments in professionalising the sales

force, in programmes, in a lot of standardisation or you can almost say preparations for actual investments in growth, so there is room to do that. At the same time, we also expect that our () into sale will be able at least to cope with a bit more so that any additions you need there in order to grow more can be within the ratio that we already see. So in a sense, to cut it very short, you can say that the operating leverage we have, that should be enough to both fund this additional investment and to make sure that we remain within the top performers when it comes to profitability.

Right, thank you very much.

Ya Dan Wang – Deutsche Bank

Sorry, this is Ya Dan Wang from Deutsche Bank, a few questions. First of all, on your ostomy business, if I strip out the benefits that you're getting from accessories and also the much faster growth you're experiencing in emerging markets, then that would suggest that the rest of it is growing in line with the market. Can you comment on that and to what extent you will be able to gain share there? The second question is on the cash requirement, how much cash do you think you would require to support the growth, which then leads onto how much cash do you estimate could be distributed each year over and beyond the dividend payments that you have highlighted? I have two more questions but I will let you answer those first.

When it comes to the ostomy market, I think it's probably a fair assumption you have. In the main European markets we have a very high market share, so we are probably going a little bit in line with the markets there. We think we can grow further going forward and that hinges on a couple of things. One is that we, as I indicated before, have a very nice pipeline of new products coming out over the coming years, also in ostomy, and the second thing is that, of course, we have been investing quite heavily, as we also said before, in professionalising our sales force across the globe.

Lene Skole

And then you asked about how much we actually invest and how that impacts our cash requirements. As I said before, at least tried to say, we do not expect this additional investment to actually deteriorate our margins. We still want to remain among the top performers. So that also means that we expect that we will continue to be cash-generative and cash-generating. As to what will then be left to distribute, it depends on – you know it might be that we see smaller acquisitions or something in the [north-eastern] emerging markets. If these come along, obviously we will invest in those and it is impossible for me to say how much that might be and when. Then we will have some loans that will need to be repaid and they will need to be repaid within the next year or so, the last ones in 2013. So that means in terms of cash distribution I would expect that cash – of course, with the caveat that that's up to the Board and the General Assembly to decide, but I would expect that this year you would see something similar to what you have seen over the past years and then next year you will start seeing an increase in cash paid out and that would most likely be in terms of extraordinary dividends.

Okay, so a follow-up on that. So should I model then for your net debt to basically go to zero?

You should model that – well, I would model that we repay our loans and that we then end up with liquidity of this billion that I mentioned earlier. That's how I would model it.

Okay, great. And then the other two questions are: on the Hungarian florint, can you give us a sense of what size benefit you would have and when that could come through if rates remain where they are at the moment?

I think I would rather refer you to the sensitivity of Hungarian florints that we have in the exchange because then you can really model it yourself, where we say that a 10% change on an annualised basis gives us about DKK 40 million on the bottom line and you can actually see there what are the currencies or the rates for Hungarian florint that we are presently using.

But we don't know how your inventory is going to move, the timing of that.

Right, so if you expect that normally – when you model it, you can say we normally hold our inventories for about three months and we don't expect any major increases or decreases of inventory relative to sales.

Okay, so there's about a three month delay in whatever that might come to.

Yes, correct.

And then the last question is on the write-offs that you have done on your receivables in Southern Europe, how do you define how much to write off and how much more do you think you might need?

First of all, we haven't actually written anything off. We have made provisions for it.

Sorry, provisions.

It is not any actual loss. I just think it is important to make the distinction.

It is, my apologies for that.

Because, of course, one always hopes that somehow you would recover it. Then what we do is that every quarter we obviously take a look at what does this look like and we base it on the aging. We look at individual customers and then we provide for what we believe is correct and the reason that you see we have now provided two quarters in a row is also that we have seen an underlying aging that when we have looked at that and the individual customers, that has told us that it was right to make an additional provision. Then, of course, because you will think now what happens and I don't know, you don't know. I don't think anybody knows but I would say there is still a lot of uncertainty in Southern Europe and I don't think anyone would disagree with that.

Okay. So would it be sensible for me just to assume that there will be 15-20 million of provisions each quarter until visibility improves?

I wouldn't even want to guide you on that because we have done what we believe is right now, so we are covered now. So it would depend entirely on what your view would be on Southern Europe in the next quarter or so.

Okay, thank you very much.

Ingborg Oie – Jeffries

Hi, this is Ingborg Oie of Jeffries. I have two questions please. Firstly, on the capital structure strategy, historically there has always been the discussion about the ruined business and that scale is important to this business and you stated that you were looking for acquisitions. Should we take this as a sign that there aren't really any good acquisitions to be had and that it is a strategy which will have to be organic therefore or if you could just provide sort of colour on how you think about that business? The second question is just related to what Ya Dan was just asking and it is about what we have seen in the distributors, particularly in Southern Europe, being squeezed and bearing the brunt of what has been the sales therapy measures there. I was just wondering if you could give a bit of an update on the financial status of your main distributors and whether they are experiencing this financial distress. Thank you.

If we start with the capital structure – and I'm sure Lars will also chip in on this one, but if we start with the capital structure, then it is correct that up until now we have said specifically that we want to accumulate some firing power for acquisitions and I think you should read two things in our updated strategy and our capital structure: first of all, the very positive thing that we actually believe we can continue to outgrow the market without making acquisitions, which I see as very positive and this is not the same as saying that we want to make acquisitions. There is still a scale issue in our wound care. We would still want to do acquisitions if the right thing comes along. However, as we are in a situation where we can now see we can actually do a lot without and as you can also see there's a limited number of targets which we have already said in the market, then we do not believe that we can continue to just accumulate cash for that. That is not right. We do believe that there is a good organic growth story in our wound care, not least in emerging markets. I don't know if you have anything to add to that, Lars.

Lars Rasmussen

So in other words are M&A off the agenda? No, they are not but we can create a lot of value by growing organically with a bit higher rate and then, if there are possibilities to do with M&A, we are, of course, very interested and then we will have to get finance.

Lene Skole

By the way, the capital structure that we are doing of course is also one that, as you can see, gives us a lot of flexibility to fund via debt if that should happen. With regard to distributors in Southern Europe, I am in no doubt that some of them are being squeezed. I mean we all know that there was a haircut on Greek bonds and I am sure our distributor in Greece is also being squeezed. A lot of them are being squeezed and we have seen, as I mentioned before, an aging of the outstandings. We haven't seen any losses. We also see that governments are actually allocating for the hospitals, the official buyer or the national buyers are allocating funds to take some of the old debt out. We don't know yet how

much of that we will be able to get and reduce our old debt but at least there is a focus on it. So we're certainly not out of the woods. There is a risk in Southern Europe but nothing a lot worse than that, sort of more or less at the same level.

Great, that's very helpful colour. Just one follow-up, if I may, in terms of the strategy to grow wound in emerging markets. Is this through distributors or are you thinking about going direct? I am just thinking back to your strategy of focusing your direct efforts in a few select markets and how you expect to do this. Also maybe you could comment a bit on how the pipeline is looking in wound care and if that is a key part of the more optimistic view on your ability to outgrow the market maybe.

Lars Rasmussen

I think if you got the impression that the investments that we are doing in emerging markets are only for wound care, then we should correct that because it is for all of our business areas but also for wound care. I think it is fair to say that the market for wound care is also interesting outside of Europe and, if you take our current business, for example China, it's growing very rapidly also on wound care. The same goes for a number of the other geographies that we are in outside of Europe. So that is how you should understand that comment on it.

We do not have a very large pipeline of new products but we do have new products that we are launching when it comes to wound care, but we do see this business area as being a business area where the expansion of our sales force and higher market pressure is more important than just bringing new products to the market because we actually have a product portfolio which we consider to be quite competitive.

Great, thank you. Sorry I focused on that business because that is probably where there is the biggest swing factor and I do appreciate that you're having great growth in the other businesses in emerging markets. Thank you.

Jesper Breitenstein – Carnegie

Hi, it's Jesper Breitenstein from Carnegie. I have three questions to you on the capital structure and one on the new growth in CTS. First on the capital structure, can you give some of your thinking behind the new level, why you have decided on a net cash position of 1 billion and not a net debt position of 1 billion for example? The second question on capital structure is if we should see this as a long term capital structure, meaning if you go and do an acquisition of let's say 2 or 3 billion, will you actually work your way back to the 1 billion cash mark again before distributing cash or could you in such a situation live with a net debt position? On the growth initiative, can you say anything on how () you will be with the 1 billion investment over the next five years? Will it be most in the beginning or would you take it gradually and what do you expect the return to be on the new investment? Do you expect to see an immediate effect on growth from those investments?

Lene Skole

Thank you, Jesper, for those questions. If I just start with the capital structure, I think I will just give you a little bit of our thinking behind why we chose this one. First of all,

this is not a way of saying that we are now afraid of having debt, certainly not and we can definitely live with a net debt position. I actually still think that, provided one has the right investment opportunities and can invest in the business, then I think we both believe that the net debt to EBITDA at 1.5 to 2.5 is definitely something a business like ours could live with.

The thinking behind this is that at the moment we don't see the possibility of actually investing all of the cash we have in the business. We don't see any immediate acquisitions and therefore what we have tried to achieve is that we said well, there is no reason to take up debt with the sole purpose of sending it to the investors. We would rather in that situation repay debt, keep as much flexibility as we at all can in case we need it. So that's the thinking behind actually having a billion in cash because, as you can see, then our facilities, our loans, they run out shortly, so that will then be the financial buffer that we have before taking up debt.

I know that you and everyone else can calculate that we could increase () here and others by taking up more debt. It was just felt that having this flexibility, being that we don't actually have the investments there, is the right thing for us to do. Then whether that's the remaining capital structure so that, if we do make an acquisition where we take up some debt, then I am sure we can live with having net debt. We have debt and we can certainly live with debt again. So you should not necessarily see us then saying okay, we will really not pay out anything until we have repaid the debt. That's not at all the intention. This is a capital structure that works now for that period when we don't have any major acquisitions and don't have any business needs for taking debt. I hope that clarifies.

I am not sure I understand why you have to go to net cash of 1 billion instead of just staying at the – what was it – 377 of net debt by the end of the quarter.

This is because the loans actually run out and yes, of course, we could – I mean the alternative would have said let's then go out and negotiate a facility so that we have that liquidity buffer in terms of a facility with our bank. That's certainly also a way of doing it. We have just felt that if we do that and then we actually need it, then it probably isn't the right one to have anyway and we would have to negotiate a new one. So therefore we felt why not just keep that buffer on our balance sheet and therefore become net positive. The impact, even if you calculate it theoretically, is really very small but I do acknowledge, of course, that there are different ways of doing it and this is they way that we have chosen and that we believe gives us the most flexibility.

Lars Rasmussen

When it comes to the growth investments, of course, you can always burn the cash but what is very important here is that this is going to be investments in expansion of our sales force, for example. It is going to be investments in expanding into countries where we are not present today. It will be both with our sales force and it will also be through distributors in some cases and therefore it is going to be gradually because we need first and foremost a management in place that we then invest in and then we build it from there. The consequence of this is that we have changed the way that we are organised today so that we are able to step up the management further in those areas and thereby we are also able to over time carry a higher investment in those areas. So it is not something where we just today are ready to press the button and then we can send the money into this

investment. It is something that we have to build, so it is you could say an expansion of what we have been building over the last years.

I think your ambition has been for a long time to outgrow the market. Are these new initiatives steps taken just to fulfil that ambition because you realised that something had to be done in order to continue to outgrow the market?

We take these initiatives to be able to grow more than we are growing currently. We are changing completely the emphasis or the focus in our business from the bottom line to the top line and we have to do that by organising ourselves in a way where we are able to start investing in areas where we have not been investing that much up until now. As I explained before, we have invested primarily in Europe in our chronic care business over the last years and this means that we are going to invest in all of our business areas also outside of Europe. So it is a step change in the way that we invest to get more growth.

Okay, thank you very much, very helpful.

Hans Mahler – DNB

Hi, this is Hans Mahler with DNB. First to follow up on the bad debt discussion, how has the situation in Southern Europe developed over the past three months if we try to measure the number of times where you actually require cash payments? Also, my second question is more a modelling issue here. If you look on your margin progress here, you should see a pretty steep increase in margins during the second half. Should we expect that the same distribution of the increase, should it look like last year, meaning that Q4 will deliver the bulk of it even if it necessarily doesn't have sort of the higher volumes? That's my two questions, thank you.

Lene Skole

So with regards to the bad debt, your question was how much has changed over Q2 in particular?

Yes, I think in combination with last quarter we discussed accounts where you actually require a cash payment before delivery and just to get a sense of what has happened over the past three months, that the number of accounts where you actually require that, how has that changed over that period?

That hasn't – I mean the number of accounts where we actually require cash payments hasn't changed to any significant degree. What has happened over the past three months has really been that the debt that was already old has become older, so we have seen an aging of the debt and that is also, of course, the reason behind why we took the additional provisions.

But the situation hasn't really become any worse during that period?

Except that when debt ages, it is worse but there hasn't been sort of more accounts where you need to go to cash payment, if that's your question. Then your question on margin increase, could you please say that again?

I just wonder if you look on the second half, if you look in your guidance, we should expect quite a significant increase. Should we expect the bulk of that improvement to come in Q4 as we see in the last fiscal or will it be more evenly distributed?

I am not sure that we should see actually an improvement. That's why I'm a little bit confused and I might be misunderstanding your question. We have got 27% now and we adjusted to 28. That is an improvement and I think you should see that in light of the fact that, in particular, in Q1 we had one-offs of 65 million, so underlying we should more or less just maintain us where we are.

Okay, I don't know if you understand me correctly. I just wonder if, in terms of the actual underlying improvement, if it will be more significant in Q4 compared to Q3, looking on the second half of your fiscal.

It is not that I can say anything with certainty, that's for sure.

Okay, thanks for that.

Scott Bardo – Berenberg

Thanks very much for taking my questions. It's Scott Bardo from Berenberg Bank. I would like to explore a little bit more, if possible, without jumping the gun ahead of your Captal Markets Day, your () that you mentioned. I am very encouraged that you are looking to step up investments to expand growth opportunities externally although I must admit I am sort of a little confused at this stage how one considers expanding into say emerging countries that you mentioned which typically are lower margin for the med-tech industry and make quite meaningful investments in doing so (you mentioned some DKK 1 billion) and still deliver margin expansion. So I appreciate you're probably going to go into some detail here at the Capital Markets Day but perhaps if you can just conceptually help me there, whether a large chunk of this is going to be capitalised, then I would appreciate that. So that's the first question.

The second question is in terms of R&D. Now I appreciate you have had various initiatives to improve your efficiencies in R&D. We have seen the ratio for R&D come down 150 basis points year-on-year and now at the lowest level we have seen I think historically ... at a time when you're delivering all-time high margins. So the question really is one of with your growth initiative, do you see this R&D ratio as being sustainable? You talk about higher efficiencies and please just help me understand how they're coming through. My understanding is that some of the products have been launched. For instance the biotin silicone is manufactured externally and I would be interested to know if that is also the case for some of the accessories that you are now launching as new products. So they are the two questions I would like to focus on if possible.

Lene Skole

Scott, if we start with the investments, first of all, yes, we would really like to give you a bit more flavour at the Capital Market Day on what we see as good sort of investment areas but just a few things. First of all, we do not expect any of the investments to be investments that will be capitalised. I think that is important just to stress. And then, with

regards to your other question on margins again, we will get into more on the detail at the Capital Market Day but I think please bear in mind that we still expect to grow in Europe and that growth in Europe is extremely profitable for us because we don't need to really invest a lot more there than what we have got. Those are two key things I would like to say right now but then I think we prefer just to go in more detail at our Capital Market Day.

Lars Rasmussen

Maybe we could add to it also, Lene, that when we say invest, it doesn't mean that we think about going out acquiring something. It is organic expansion activities we are talking about and not acquisitions. That is on the side, just to be on the safe side. On the R&D side, I do understand your questions and I may even pick up some concerns from what you are saying. I don't think that you should consider the R&D level we have now as sustainable because it will fluctuate from quarter to quarter but we have become much more efficient as I have said a couple of times because I know it may be hard to believe. We have a very, very strong pipeline of new products coming out, which we also will be able to deliver on. Most of what we do is product development as we used to do but we are also, of course, figuring out ways where we can get onboard products from third parties like, for example, the biotin silicone that you mentioned. The same goes for the Brava that we talked about. It is not all of it that we are producing ourselves but we also have a quite solid pipeline of self-invented products, so to speak.

So you should expect the R&D cost to fluctuate over the quarters and we are not in a mode where we have said we want to expand our margins so let's cut back on everything. If you look at the distribution costs, they have remained at 28-29% throughout the period where we have expanded our margin significantly and we have also stepped up the initiatives and all of our governance systems in order to be even () when it comes to delivering new products.

Thank you very much. So sorry, just one point of clarification then, and I fully understand why you choose to invest in growth initiatives but, from what you are suggesting there, that whilst these R&D ratios may fluctuate, it is, given the sort of efficiency measures that you have identified here in your product flow, a relatively – a level that should be kept at these levels or is your growth initiative, does that include expanding R&D investments going forward? I am just trying to understand how R&D is factored into your growth initiatives.

Yes. Well, we would – no matter what, we will invest whatever we can in order to have the best possible product pipeline or pipeline of new products, whether we have flagged this new strategy or not. If you are in the business we are in, you simply need great products in the market and therefore we know that we have to invest in that and the only thing we have done over the last three years is really to hone that process and make it much more efficient and more market-driven than it was before.

Lene Skole

If I could just add with what we're seeing now and, of course, as Lars said, we would invest if it's necessary but then we would expect the R&D to sales to remain up to 4%.

Okay, thank you very much. Last more technical question, if possible: the benefits from your share buy-back over the first half of this year were largely cancelled out by the excise of internal share options. Is that something that we should also expect for the second half of the year or is this sort of nullifying effect now gone?

We know that we are going to continue the share buy-back but there is no way that we can control when the people that have got the options here, when they are actually going to exercise their options, so I wouldn't know.

I understand but there are still...

There are still options outstanding that, yes.

Okay, thank you.

Veronika Dubajova – Goldman Sachs

Good afternoon, it's Veronika Dubajova here from Goldman Sachs – a few questions if I can, hopefully one pretty quick. Lene, I am not sure if you can provide break-out for your revenue growth in terms of price and mix and volume for the quarter and maybe more generally comment on the type of pricing environment that you have seen in Europe and the US. The second question I had, which is a little more broad, relates to the competitive environment in ostomy. Your biggest competitor here has recently seen some improvement in momentum and I'm wondering whether you might be willing to speculate as to whether that is related to a better underlying growth environment in the market or maybe to market share gains and who you see as the likely loser in that type of scenario.

Lars Rasmussen

I think for the pricing, in this quarter we have stable pricing and then you see the volumes go up but we haven't seen any big movements in this quarter and I think that we actually have been pretty precise in trying to update on whatever we know on the reform side.

On the ostomy care momentum, it is really hard for us to comment on our () movements and as you also see from what comes out of us, you should be a little bit careful just to take short term effects into consideration. So it is more what kind of comments that they come up with for it but we have noted that they are not in negative territory any more on the ostomy side.

But is it fair to say that in terms of what you see on the ground, you haven't really seen in increase in competitive pressure from their side?

I think that's fair to say, yes.

Okay, that's great and then I could just put one quick follow-up. In terms of the Spanish Local Government debt initiative, Lene, are you aware of any receivables that you might have taken a provision for already that might be covered and therefore be paid for in the coming months?

We don't know that yet. I simply don't have the knowledge.

Okay, that's great, thank you very much.

Closing Comments

I think we have to close down this conference call. It's 4 o'clock. So thank you very much to everybody for participating and for your questions.