Coloplast A/S
9M 2011/12 Financial Statements
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Chaired by Lars Rasmussen

Lars Rasmussen

Good afternoon and welcome to this Q3 2011/12 conference call. I am Lars Rasmussen, CEO of Coloplast, and I am joined by CFO, Lene Skole, and our Investor Relations Team. As usual, Lene and I will start with a short presentation and then we will open up for questions.

Please turn to slide number 3. In Q3 we delivered a quarter in line with guidance and our own expectations. We delivered 5% organic growth for the quarter and 6% year-to-date. Consolidation of distributors in the UK added more than 1% to growth in Q3 while lower sales from contract manufacturing of Compeed reduced our top-line growth with more than 0.5%. Adjusted, the growth in the quarter was 4%. We report a solid EBIT margin of 29% for the nine months of 2011/12 and 32% for Q3 in isolation, which I am very satisfied with.

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 29% in local currencies and around 30% in DKK, also based on current exchange rates. Lene will provide more details on the guidance at the end of this presentation.

Now please turn to slide number 4. Revenues were up by 6% organically and 8% in DKK and amounted to almost DKK 8.2 million. Ostomy Care organic growth was satisfactory at 6% both in the quarter and for the first nine months of 2011/12. The growth was driven by good performance in most European markets and especially in the UK. In Continence Care organic growth was 9% in the first nine months of 2011/12 and also 9% for the quarter. We continue to be satisfied with our performance in Continence Care where both our intermittent catheter line and our collecting device products performed very well.

In total our Chronic Care businesses grew 7% for the first nine months and 7% for Q3 2011/12. In Urology Care organic growth was 5% for the first nine months of 2011/12 and 4% for Q3 in isolation. Sales of female slings continued to decline while sales of mesh for pelvic floor repair remained satisfactory in Q3. Sales growth of penile implants continued its satisfying performance during the quarter. The European Urology business saw a slightly weaker quarter with no particular or identifiable reason behind it.

Our Wound and Skin Care saw organic growth of -2% in the first nine months of 2011/12 and -5% in Q3 2011/12. Year-to-date our Wound Care business declined 4% as it continues to be impacted by strong competition and adverse market conditions in the main European markets. In Q3, however, the decline slowed to 2%. Our US Skin Care

business saw very satisfying growth in Q3 whereas our contract manufacturing saw a sharp decline in growth rates during the quarter and was the main reason for the lower growth in Q3.

Turning to our geographical segments, we saw satisfying organic growth in Europe of 5% in the first nine months of 2011/12 and also 5% for Q3. Consolidation of our sales through third party distributors to now only two distributors in the UK led to stock-filling, which increased growth by more than 1%, as mentioned earlier.

Organic revenue growth in the Americas was 8% year-to-date and 4% for the quarter. Despite a low quarter impacted by distributor order patterns, our US business sees satisfying growth in both Ostomy and Continent Care and the US management continues to execute on the plans laid out last year.

We continue to see declining growth rates in Brazil. Organisational changes last year led to a change in focus from NPD towards tender and we are paying for that now. The situation has been solved in Brazil and we are now seeing uplift in our NPD numbers.

Revenue in the Rest of the World grew 6% organically in the first nine months of 2011/12 and the quarterly organic growth was 5%. The retail was especially impacted by declining sales of contract manufacturing during Q3. China continues to grow in line with our expectations whereas growth in Japan and Australia improves more slowly than expected.

I will now hand over to Lene.

Lene Skole

Thank you, Lars. We are now on slide number 5. Gross profit amounted to DKK 5.4 million, equal to a gross margin of 66%. This is an improvement of 2% compared to the same period last year. In line with previous quarters, continued efficiency in the production economy and higher absolute sales were key drivers in this positive gross margin development. The reported gross margin for the quarter was 68% and positively impacted by currency fluctuations, especially the US dollar, British pound sterling and the Hungarian forint. In fixed currencies the gross margin was 67%.

The SGA to sales ratio was 34%, down from 35% in full year 2010/11. We have in Q3 of 2011/12 increased our provisions for bad debt in Southern Europe by DKK 34 million, related mainly to Greece where we now have outstanding payments overdue. Bad debt provisions related to Southern Europe for the first nine months were DKK 66 million. All in all, receivables due more than 90 days decreased compared to 31st March 2012 as the Spanish payment plan took effect end of June. The R&D to sales came in at 3% and continued to be below previous spend. The effects from the restructuring of the R&D organisation in 2H of 2010/11 reduced the overall spend compared to last year.

All in all, this results in a reported EBIT margin of 29%, an improvement of 5% against the same period last year. The reported EBIT for the first nine months of 2011/12 included extraordinary items of DKK 65 million related to a settlement of an arbitration case and an extra bonus payment to all employees, both incurred in Q1. Net of currency impact, the EBIT margin was 28%. The reported EBIT margin was 32% for Q3 in isolation, positively impacted by more than 1% from changes in currency exchange rates.

The improvement compared to 1H 2011/12 was due to increase in revenue, especially in our European markets.

Our net profit increased by 23% to almost DKK 1.6 million, corresponding to an earnings per share diluted of DKK 37.2 against DKK 30.1 in the same period last year. Capex amounted to DKK 236 million, corresponding to a capex to sales ratio of 3%, reflecting continued low spend. Free cash flow was up 69% to DKK 1.5 million compared with 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 of last year, decrease in taxes paid and the acquisition of Mpathy Medical Devices last year. The positive effects were partly offset by an increase in net loss on realised foreign exchange hedging contracts. Return on invested capital after tax was 36%, up 8% from last year. This quarter our interest-bearing assets exceeded our interest-bearing liabilities by DKK 142 million.

Since our last healthcare reform update to the market in connection with our Capital Markets Day in June 2012, we have noted that the Ministry of Health in France has started a new dialogue with the medical device industry with the aim of obtaining savings on medical device spendings of up to €350 million over a five year period starting from 2013. We expect further information from the French authorities in September this year. Further in Italy the Senate passed a large austerity package where a part of it will cut healthcare spending with €5 billion over the next three years. The package still needs final approval from the House. In both cases we do not have sufficient detail at this time to make a full assessment as to the impact on Coloplast and hence we make no changes to our current estimate of a 1% annual price decline. We will keep you informed as we receive further information.

Now please turn to slide number 6. 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 DKK. As expected, we realised a growth in Q3 that was lower than 1H of this year and we expect that our Q4 will be at least in line with Q3, especially as the comparable quarter last year was low. Order patterns should also impact positively whereas we expect growth rates in the UK will decline compared with Q3. Hence we are keeping our 6% organic growth guidance for 2011/12.

Despite increasing provisions throughout the year, we have continued to make significant improvements to our margins. This has also been the case for this quarter where earnings have been impacted positively, especially by a stable cost base and positive leverage effects from good European growth rates. We expect those effects to continue into Q4 and therefore we have a slight upward adjustment to our expectations. For 2011/12 we have upward adjusted our EBIT margin guidance in constant currencies to around 29% from previously around 28%. At the same time we raised the guidance in DKK to around 30% from previously around 29%. 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%.

Now this concludes our presentation. Thank you very much and, operator, we are now ready to take questions.

Questions and Answers

Veronika Dubajova – Goldman Sachs

It's Veronika Dubajova from Goldman Sachs – three questions if I can. The first one is just on the contract manufacturing and the Compeed line. Can you comment on what drove the significant drop-off that you saw in Q3 and how are you thinking about that into Q4 and then beyond?

My second question relates to the hedging losses that you took in Q3. Again, Lene, I don't know if you have any guidance as to what Q4 will look like. Then, given that you are continuing to see this currency benefit also into the next fiscal year, assuming that currencies hold, is it fair to assume that you will see some of that benefit disappearing in the financial expenses line because of the hedging that you have in place?

Then my last question relates to the R&D spend. Yet again we saw a quarter where it was meaningfully below trend. Do you still think that in the long term it is fair to assume it is going to trend back towards 4% or should we be reassessing that assumption in our models?

Lars Rasmussen

Thank you, Veronika. Let's start with the contract manufacturing. The reason why it is, as we understand it, because we don't have much visibility on it because it is contract manufacturing but we understand that they have changed the way that they put in their orders, so we would expect the next quarter to be flat. So we have had maybe higher sales the quarter before and lower sales this quarter and then we expect it to be flat for this quarter. That's what we know. It might be a bit different but that's what we expect.

On the R&D spend, you should still expect it to go back. I can see that we are spending a little bit less this quarter but you should still expect us to keep up the spending and, as we also said on the Capital Market Day, we are actually having quite a full portfolio running and we are very committed to bring new products to the market and will do so.

For your second question, I think Lene has a comment to that.

Lene Skole

Veronika, on the hedging I know it's very difficult to predict exactly what comes in because, of course, that depends very much on exactly when the hedging contracts are made and so on but what we do with that, we hedge on average 11 months and we are relatively consistent with that. So that means even though you might see what you would think of as surprises between the quarters, then they are more a timing difference than they are in any ways a reflection of a change in our hedging policy.

Now for your actual question, what should we expect in Q3, very difficult to predict but, if we look at what we have with current exchange rates, what we have still not realised (if you see what I mean), that would be about DKK 100 million and, given that we hedge around 11 months, you should see a proportion of that coming in Q4 and, if I recall, the

way currencies have moved, I would expect a relatively large part of that to come in Q4. So that's the best I can do now but it is difficult to predict exactly.

Understood, thank you for that.

Klaus Madsen – Handels Banken

Hello, it's Klaus Madsen from Handels Banken. My first question relates to your growth in the Rest of the World. Could you break down, at least qualitatively, the growth you see in the emerging markets section of that segment and in the mature markets and comment on any change in the dynamics?

Secondly, on the growth margin, which has a very impressive sequential improvement around 2%, could you break that down into the underlying efficiency improvement and the impact of, in particular, the UK stocking effect in the quarter?

Finally, could you provide us with an update on your current performance in slings and also the expected launch of the Elsis(?) mini sling?

Lars Rasmussen

When it comes to the Rest of the World, I think the best way we can guide for you is to say that if you clean out the effect of the contract manufacturing that we had this quarter, then for the rest of the businesses that are in there, they would have the same or have a performance which is in line with what we had for the first half year. So it has actually been something that the way we report the numbers, it has shown quite significantly this contract manufacturing effect but we are quite satisfied with the performance we have in China and, if we look at the performance also in Australia and Japan in Q3, it's okay.

With regard to Elsis(?), there are no news. We still expect it to be launched at the end of 2012. Then you have some specific questions on the gross margin.

Lene Skole

Your question as I recall, Klaus, was how much of this is actually efficiency and how much of this is the UK stocking? I can't answer specifically as to that but that 2% increase we can split more or less 50/50 to one being efficiency improvements and the other one being higher sales generally, i.e. not just the UK. I hope that helps.

Thank you, that's very helpful.

David Adlington – JP Morgan

Good afternoon guys, thanks for taking the questions. It is David Adlington from JP Morgan – just one really following the initial questions. Your provisions on bad debts, you have been making some provisions I think in Southern Europe and Spain specifically not this quarter but in previous quarters. Given the cash coming in from Spain, I'm a little bit surprised you have not written back some of those Spanish provisions at least. I just wondered if you could comment on that. Thank you.

Lene Skole

Sure, David, we can do that and thank you for that question. You're obviously right. It's great that they have paid and I feel much more comfortable with the money being in our pockets than before. However, we do not see as such a general improvement in the situation in Southern Europe and, of course, we keep selling and what they've paid is the public debt older than 2012. So as such, there's not an actual underlying improvement but money has been paid and that's why we haven't written it back.

Then you could ask why have we then actually made more provisions and that is because we have until this quarter had a situation in Greece where we didn't have any overdues. We were paid on time. Now our Greek distributor has told us that at least for the next few months he will need some extra time to pay and that's why we have increased our provisions.

Thank you.

Ed Ridley-Day – Bank of America

Hi, thank you, Ed Ridley-Day from Bank of America. Just a quick follow-up first of all on the receivables question and then a question on the Wound business. Is it possible to give us some breakdown of provisioning between Spain and Greece that you have just made firstly and, secondly, in terms of an update on the total provisioning that you have now set aside for the Spanish market? That would be my first question.

Lene Skole

I can't give it specifically as you have asked. I can say that the reason for the provision we made in this quarter was to a large extent Greece and I can say that as of the almost 1.9 million we have in outstanding, then a little bit more than 0.5 million relates to Southern Europe and that's post-due and non-due and overdue and our total provisions are now in excess of DKK 150 million. That gives you at least some idea.

That's very helpful, thanks. On the Wound investments, now that you say it has partially improved QoQ the last couple of quarters, the core business, but ultimately you are still lagging the market and I just wondered if you could give us a little bit more colour about: (a) where you have seen improvements; and (b) really whether you still believe, as you said a year ago, that your investment in marketing and so forth that you have made can support an underlying improvement in the growth in your Wound business.

Lars Rasmussen

Thank you, that's really a good question. I think that it is fair to say that we are seeing slight improvements in our Wound Care business. When we take the countries and we look at them country-by-country, we do see more green than red dots on them now. It's a slight improvement and we are not there yet, so don't take this that we are satisfied with the performance we have in Wound Care on the growth side yet. We are not but we see that things are moving in the right direction and that is quite comforting for us because also in the year that has just passed we are doing some investments to further strengthen

the growth there. So we do believe that we are moving towards more healthy numbers in Wound Care but I also recognise that we have said this before and it is a slow movement.

And just a quick follow-up. In terms of you say the green dots, is it particularly the sales investment that has got that back to green in terms of the top-line or do you think it is more on the products side?

It is sales investments but it is sales investments that we did some time back. So we do actually see that some of the biggest things we invested, if you go one and a half/two years back, we see that they are starting to kick in now.

Okay, thank you.

Chris Gretler – Credit Suisse

Hi, it's Chris Gretler of Credit Suisse. I have a few questions. First of all, starting off with new products and I was just wondering if you could give us an update on the performance of this Ostomy accessory product line you have been launching, how satisfied you are and what has been the reception there and overall what kind of product announcement we should expect? If I remember right, an important pillar of strategy has been building on new products.

Secondly, with respect to the US, I was just wondering is this growing high single digit or something and is this strategy in Continence care really working as you have expected also as of very late? That would be my second question.

Then just quickly on Compeed actually, I can't remember but is this an exclusive supply manufacturing agreement that you have here or, if not, what kind of percent of the overall products actually you will supply or you usually supply? That would be all.

Lars Rasmussen

For the accessories line for the Ostomy business, which was what we showed at the Capital Market Day in the UK ... that is actually beating out our forecast for what we expected to sell on it, so we are quite satisfied with that and it is also correct that we at the same point in time showed a kind of a blended portfolio of products that we are going to launch. So we are going to launch new products in October and we will announce it when we are ready to do that but there are basically no changes to what we told you at that point in time. So expect us to launch new products every half-year. That's our plan and that is what we really try to stick to.

For the US, the Continence Care plan we talked about there, which is all about upgrading the market to also use SpeediCath products, that is actually in line with our plan. There is a very big price pressure on the non-catheters or self(?) catheters because this is a commodity market where there are many other players that try to get in there. We are seeing that the take-off in SpeediCath is as we planned it to be. So I would say that for the US it's especially the Continence Care business which is going according to plan and we are very satisfied with that. When we are looking at the US this quarter, we also have to remember that we have some quite big customers there, so swings in the order pattern from these big customers skew the quarterly growth rates quite a bit.

Regarding Compeed, actually Compeed was a product which was invented by Coloplast many years back and which we tried to sell ourselves for many years through an over the counter general. At the end of the day we realised that was not our business and therefore we sold it off to Johnson & Johnson I think 11 years ago. At that point in time, because we have proprietary technology there, we made an agreement to still keep producing this product. So it is a product where we are sole suppliers for it. They have a lot of other stuff under the Compeed brand but this specific product line, we are the only ones that supply that and, as such, we sort of live and die with this business with them.

Okay, that's very helpful, thanks a lot.

Ingeborg Oie – Jeffries

Hi, it's Ingeborg Oie at Jeffries – two questions please. The first one is on the margin and, looking at the companies that you are benchmarking yourselves against for the long term targets, it looks like for most of these companies you are by far exceeding their margins. I am just wondering how high you see these margins can go. What is the real ceiling that you're seeing?

The second question is on Italy and thank you very much for keeping us updated on the developments. I was wondering if you have already seen any changes in customer behaviour in Italy because we have heard from other sectors that there have been certainly some reactions to this announcement, the €5 billion cuts. So if you could provide any colour on what you are seeing in the market there, that would be very helpful.

Lene Skole

I'm going to start with the margin because, of course, I like that question and you are right, it is beginning to look quite good when we compare to our peer group. We are very happy with that. We will continue to run as efficient this business as we possibly can and I can, of course, not give you any idea of where we will go but we will promise that we will continue to guide you from year to year on this.

Lars Rasmussen

On the Italian case, we haven't seen any changes in customer behaviour yet but, of course, this might be the case once they are back from holidays, but as it is right now it seems to be business as usual.

Thank you. Just one quick follow-up for Lene: so we should expect an update to the long term margin outlook, given that it seems a little bit outdated?

Lene Skole

Well, I don't think it's outdated. I think having an ambition saying that you want to outgrow the market and you want to be among the best-performing, that is a continuous and very ambitious target. It's not very many companies that manage to stay there for a long time. So I think we will continue to see that as a very ambitious target.

Okay, great. Well, you have done extremely well on it so far.

Thank you.

Martin Parkhoi – Danske Bank

Martin Parkhoi from Danske Bank, just two questions. First one, a little bit of clarification, at least for me – Lene, you said during your presentation that you expect Q4 to be at least on par with Q3 on sales. Did you mean the growth rate or did you actually mean in absolute terms?

Then the second question: going back with respect to the health initiative you mentioned in Italy and France, could you just remind us of your sales exposure to these two markets? And, in particular, with France that you have seen cuts on Wound Care already. Do you think that you could see a second round on this as well?

Lene Skole

Thank you for that, Martin. By the way, my very first comment is happy birthday. I understand it's your birthday today.

Thank you very much.

I just use the opportunity to say that. With regards to what we expect for Q4, that's the growth rate that I was thinking about, that we expect that to be more or less the same in Q4. I'm just thinking we don't have – I'm just looking at my colleague, sorry, for Italy and Spain, our exposure there. What do we have there? Around a billion in total of sales of course.

Okay. And then with respect to the growth rate in...

Wait, sorry. I am sorry, I need to ask Ian here. Are you sure that that is correct? To me it sounds a bit high. Can we just come back in a little while? I'm not sure that's correct.

Of course. Just to follow up on the growth rate, which you said will be at least the same in Q4, do you expect the () we saw in UK in Q3 – should we just expect that to be reversed in Q4, which you would expect to see a negative impact of at least 1%?

You should expect that to be reversed. Whether all of it will be reversed in Q4 or whether it will be reversed over Q4 and Q1 next year, we don't know for sure. While we are looking for the numbers here, I can just repeat that our exposure in the so-called PIIGS countries is 11% of our total revenue.

Thank you.

Spain and Italy is about 85% of that, so we get close to the billion that we just said actually.

Yi-Dan Wang – Deutsche Bank

Thank you very much, I have a few questions. The first question is on the R&D. Can you give us a sense of how you R&D spend would phase as the products that you have shown at your Capital Markets Day are introduced and whether it's more of a back-end loaded kind of investment that you have to make there or have you made a lot of the investment already?

Then the second question is on the distribution and admin costs. Both of them again have come down quite a lot and whether we should continue to think about those two lines more or less in line with the comments you have made previously of that being I think for distribution at around 28% of revenues and for G&A about 6% of revenues. Actually, sorry, distribution I think previously you said it was going to be about 30 and that's running at about 28 at the moment.

Then the other question I have is on the Compeed product. Can you give us a sense of what sort of trends that product is developing at? Clearly, we do see some volatility but on average should we expect it to grow at sort of a mid-single digit rate or whatever rate you would care to share? Thank you.

Lars Rasmussen

The R&D costs, it's actually pretty hard to give you () of it because the fact is that we update our pipeline at least every six months because, as you may recall, we are running a very strict regime so we give a very short timeframe for the products from the moment they enter what we call our gate(?) model until they are in the market. So therefore it also means that the plan that we showed you last time is already updated six months after that display. So that also means that it is impossible for us to tell you about it but what we are working on right now is a quite large portfolio of new products that comes out and therefore you should expect the R&D costs to be more in line with what we have guided than what we are showing right now.

With regards to the distribution and admin costs, the third and six are not a million miles away because we are, as we also said, investing more in sales, so that's probably still a good guidance.

Lene Skole

I guess on the admin it is more fair to say about five to six.

Lars Rasmussen

Yes probably. We don't anticipate that we will do whatever we can to increase our admin costs.

On the Compeed side, as we said earlier on, this is a pure contract manufacturing set-up. We don't get insight into the trends which are really useful for us and that we can use for you to guide on. The only guidance we have right now is that for the next quarter we should expect something which is ballpark flat.

Right, just a clarification on that. So if you look back at how much revenue this business has generated for you, has that been flat, growing or declining?

It has been slightly increasing.

Okay, thank you.

Scott Bardot – Berenberg

Thank you very much. It's Scott Bardot from Berenberg Bank. Can you hear me okay?

It depends what you ask.

Thank you very much. First of all, I just wanted to explore a little bit more whether there was any mixed effect on your growth margin development, your very favourable growth margin development, this quarter. Of course, you saw some stockpiling of what would otherwise be classified as quite profitable products like intermittent catheters in the UK. So do you think that there was any potential mixed benefit here that maybe inflated the growth margin at all? Any comment there would be really helpful.

Also, could you give a sense of whether there was an impact from stockpiling on your Ostomy growth? You referred to the UK being a very strong market in Ostomy. I just wondered whether again some stockpiling flattered that growth number or whether that was a genuine underlying growth.

The last question is one of operational costs. It appears to me that your operating costs for the first nine months of the year have grown only 1 or 1.5% YoY, which is very impressive, given your top-line growth, so not a surprise to see such meaningful leverage come through. Can I just understand that, given your previous Capital Markets update, your anticipation would be for operating costs growth to accelerate going forwards, given the fact that you want to invest in sales force, launch new product? And if you could help me understand and quantify what would be a normalised operating costs growth rate, that would be incredibly helpful. Thank you very much.

Lene Skole

Ooh, that was a lot of questions.

Lars Rasmussen

Maybe I could start off with the first one because I think it's important to understand that we have actually a very strong performance in Europe overall. So we are very satisfied with especially the Chronic Care development in Europe and, of course, when you sell more in Europe, it probably also a little bit helped on the gross margin side but it's especially on the Continence Care that we have had maybe some tailwind from the consolidation that happened in the UK but it is not to an effect where we expect that things are very different the next quarter. You can also get that out of the guidance that we do have for the rest of the year.

When it comes to the operating costs...

Lene Skole

Just to finish off on the growth margin, you asked specifically about mixed effect. It's not sufficient big amount so we can actually sort of say this much is mixed effect. I think I would go back to what I said earlier in the conference call that there is about 1% that comes from pure efficiency improvements and then 1% that comes from having higher sales in, as what Lars says, the profitable European markets in particular.

As to our operating cost, as Lars just mentioned, we expect that to continue at the 5-6%. We would, of course, like to invest more in sales initiatives and we have a nice number of very good initiatives that we are looking at and that we are evaluating, so that would give some additional cost going forward. At the same time, with still the absolute main part of our nominal growth coming out from Europe, there will be a leverage effect on that and that is why we can say that on the distribution line, which is where most of this investment will go, that our unofficial guidance you can say of around 29% revenue probably still holds.

Thank you very much for giving us the update on current healthcare reforms – just two questions please. Firstly, on the () in Italy, it is my understanding that this sort of unilateral 5% cuts didn't really come into effect until 2H of this year and the cut coming in more aggressively next year. Have you started to see in Q4 any impacts of this cut? Of course, we haven't seen any – this was implemented after your Q3. On France, is it your understanding that the French price cuts now outlined or the French reform now outlined is incremental to the ongoing pricing review in Ostomy and Continence Care? Thank you very much.

We simply don't know. We don't have enough knowledge to give a meaningful answer. We will continue to follow it. We will continue to use our () to influence it but I can't give you a meaningful answer to that. We don't know yet.

Okay, thanks very much indeed.

Niels Leth – SB Enskilda

Good afternoon, Niels Leth from SB Enskilda – three questions. The first one is regarding your DKK 1 billion investment programme in growth initiatives. What quarter would you expect that to be recognisable for us? Would that be early next year and could you just talk in broad terms about what would be the first initiatives that you bring to the table?

Secondly, we have talked about healthcare reforms. We have a US healthcare reform to come up most likely. Could you just talk about how you would expect that reform to impact your tax payments in the US and how the competitive bidding initiatives would impact your business as well?

Then just a final question regarding goodwill and, given what is taking place on the US mesh market, do you feel comfortable with your goodwill related to the Mpathy acquisition last year?

Lene Skole

Right, let's see where we start. The DKK 1 billion in investment initiatives, we are currently reviewing various initiatives and at what point you will actually be able to recognise it. I doubt there will be a lot of additional spending because of that in Q4 because that's simply a little bit early. So I think you would be able to start seeing it after that.

As to the actual investments we're looking at, we would much prefer if we can come back to you once we are more ready with it so that at least we can make sure that we can also talk to our organisation broadly about it before we talk to you.

With regard to the healthcare reform and the specific question on tax payments, my latest information is that it is not yet fully clarified how that sales tax will actually – what final form it will have and how it will be booked. So we don't have any news on that particular item.

With regards to your question on goodwill, whether we are comfortable with what we have got for Mpathy, we review obviously these things on a continuous basis. Mpathy gave us the lightest mesh or one of the lightest mesh at least in the market and performance is such that we are comfortable with the goodwill that we have on the Mpathy.

There was a question – I think, Lars, maybe for you – on a competitive bidding or should we have that repeated? Could we have that repeated?

Yes. I was just asking how would you expect the competitive bidding initiatives to impact your business on the US market?

Lars Rasmussen

That's a very good question. I don't have any comments to that at this point in time.

Okay, thank you.

Chris Gretler – Credit Suisse

Can you hear me?

Yes.

Just one follow-up question on the Ostomy business. Now I noticed in the () of your competitors that they increased pricing on Ostomy products in the US. Is this something you will follow and is this the general trend? What is ... your general take on pricing strategy in that market?

That's very interesting information. I would like to learn more about it. We have not heard about higher prices for Ostomy appliances in the US.

...I will come back to you.

Thanks.

Yi-Dan Wang – Deutsche Bank

In your press release you commented about basically law suits relating to the slings and meshes, etcetera. Can you give us as much as you can on what Coloplast's exposure to that might be? And then, secondly – you might have commented on this already but I missed the first part of your call – why was the Ostomy business in France unsatisfactory and what might get it back into – well, get it moving in the right direction? That's all, thank you.

Lars Rasmussen

On the FD safety update, the thing is that in July 2011 the US administration issued a safety update regarding the use of trans-vaginal mesh for pelvic organ programmes and since then several () companies, including Coloplast, have become involved in a number of product liability actions on the use of this mesh for pelvic organ programmes, especially on incontinence. At this point in time the number of actions potentially involving Coloplast represents a minor share of the total number of actions and currently we have a little more than 100 claims against Coloplast. With our current knowledge we don't expect this to have a negative financial impact on Coloplast and we do also have product liability insurance in the US. This is basically as much as we do know and that we can say at this point in time on the mesh situation.

With regards to France, the Ostomy performance in France is actually okay. We do see when we go back in time in this year that they have had some swings where we have seen that we had low sales and then high sales. In France we are buying market data (we call it the Shears data) and we do consistently see that we are selling to a tune at all times where we are gaining market share in the French market.

Oh okay, because in your press release you said that that's not satisfactory. From you comment, it doesn't sound like it's not satisfactory but it is doing quite well.

Well, I would say that it's a lower growth than we had last quarter but still we are gaining market share and that is basically what we are looking at at all points in time.

Okay, that's what you meant, alright – just bit slower but nothing significant to worry about.

Exactly.

Okay, thank you.

Oliver Metzger – Commerzbank

Hi, it's Oliver Metzger. I am calling from Commerzbank. I have just one question. I read in your reports that you report or you will report additional income in the present case of around DKK 30 million in Q4. My question is does your EBITDA include this amount? Does it account for 0.3% of sales? That would be interesting.

Lene Skole

It does include that amount, yes.

Okay, thank you.

Scott Bardot – Berenbank

Thank you. This is a very quick one actually. At your Capital Markets Day it is very helpful you provided us a breakdown of your geographic revenues in accordance with your new organisational structure, which I see separated Russia from Europe. I just wonder whether it's possible that we could see your new reporting structure aligned with that so that we actually see a Western European number disaggregated from a Russian component so we can really tease out where the emerging market growth is or the contribution from emerging markets. Thank you.

Lene Skole

Scott, that's a good question. It is something we are working on and considering and that we will get back to you on, whether that new structure has any impact on how we report.

Great, thanks so much.

Closing Comments

We would like to say thank you for all of your questions and your interest. Thank you very much, bye.