COLOPLAST

Moderator: Lars Rasmussen
October 30, 2014
2:15 p.m. GMT

Operator: Ladies and gentlemen, thank you for standing by and welcome to the FY2013/2014 financial statement. At this time, all participant lines 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 one on your telephone keypad.

I must also advise today's conference is being recorded on Thursday, October 30, 2014.

And I would now like to pass the conference over to your speaker today, Mr. Lars Rasmussen. Please go ahead, sir.

Lars Rasmussen: Thank you very much. Good afternoon and welcome to this full year 2013/2014 conference call.

I am Lars Rasmussen, CEO of Coloplast, and I am joined by CFO, Anders Lonning-Skovgaard, and our investor relations team. Anders and I will start with a short presentation and then we'll open up for questions.

Please turn to slide number 3. I am very satisfied with the 2013/2014 results. We delivered 9 percent organic growth, 33 percent EBIT margin, and a 17 percent EPS growth before special items. But I think that we have achieved more than just good numbers. To mention a few, we invested almost DKK200 million in sales enhancing initiatives, taking the total committed amounts to above DKK1 billion since 2012.

We are in the middle of the largest product launch ever in the history of the Company with our new SenSura Mio. We are also rolling out our new silicone product in the wound care and, finally, we are approaching a full-scale commercial launch of Compact Eve.

We have opened up more new markets this year than ever before with markets like Turkey, Algeria and Taiwan, and more will follow.

A new ambitious long-term guidance was introduced for the coming three to five years, setting a clear direction for Coloplast. And over the summer, we have enhanced executive management, positioning us to better deliver on that guidance.

We have also approved a new five-year strategic plan for global operations, securing further strengthening of gross margin and finally, but not least, we returned more cash to shareholders than ever before.

Most of these initiatives will position us well for future growth and earnings opportunities so, all in all, we are satisfied that we deliver as promised for this year, and we are committed to do so for the new financial year.

For 2014/2015, we expect an organic revenue growth of around 9 percent and we expect an EBIT margin around 34 percent in fixed currencies, both in line with our long-term financial commitments.

Please turn to slide number 4. Revenues were up by 9 percent organically and 7 percent in Danish krone and amounted to DKK12.4 billion. In ostomy care, organic growth was 8 percent and growth in Danish krone was 5 percent. The growth continues to be driven by solid performance of our SenSura portfolio in Europe and in the US, as well as strong uptake in the market for Brava accessories. In addition, we also continue to see strong sales performance of Assura in markets like China, Brazil and Spain.

Organic growth in Q4 was back at 8 percent and was driven by good growth in Europe and emerging markets. Our new generation of ostomy products under the brand name SenSura Mio has been launched in 12 markets in

Europe and North America at this point in time. We expect to add another seven markets in 2014/2015, including the very large UK market.

Finally, we retained our global market leader position with a 35 percent to 40 percent share of a DKK13 billion to DKK14 billion market, and we continue to expect the market to grow 4 percent to 5 percent annually.

In continence care, organic growth was 10 percent and growth in Danish krone was 9 percent. In Q4, organic growth was 9 percent for continence care. Our very satisfactory growth was driven primarily by the SpeediCath product range, especially our Compact range of products. Our collecting device business continued its satisfying performance in Europe and in emerging markets into Q4 as well.

Finally, our bowel management business also continued its satisfactory performance. The Compact Eve catheter product introduced to the market in connection with our Capital Market Day in Copenhagen in June has now been prelaunched in five markets and we expect prelaunch in seven more during 2014/2015. So far, the feedback from healthcare professionals and users is very good.

Coloplast is global market leader in continence care with around 40 percent market share. We have increased the estimate of the market to between DKK10 billion and DKK11 billion, growing 5 percent to 6 percent annually. The reassessment is related to changes to the estimated size of the US catheter business, which is believed to be bigger than previously estimated.

In urology care, organic growth was 9 percent and growth in Danish krone was 7 percent. In Q4 in isolation, organic growth was 8 percent. Sales of the Titan range of inflatable penile implant devices continued to drive the strong performance. This was also the case within female pelvic health where our single incision mini sling, Altis, is the key growth driver.

Finally, the enterology business continues its satisfying performance. In urology care, our market share remains around 10 percent to 15 percent of a DKK9 billion to DKK10 billion market, which is expected to grow 3 percent to 5 percent per year. This is unchanged since last estimate.

In wound and skin care, organic growth was 10 percent and growth in Danish krone was 8 percent. Organic growth for wound care in isolation was an impressive 11 percent. Growth for the quarter was 9 percent for wound and skin care. The growth continues to be driven by our Biatain and Comfeel range of products. Growth was driven by countries like China, Brazil and Greece on the back of continued stable sales in most European markets.

Finally, our skincare and contract manufacturing business saw satisfying growth in 2013/2014. Customer feedback on the silicone product remains good, and I'm happy to say that capacity constraints related to this product has been solved. This also means that six more markets will launch Biatain Silicone already before the end of 2014/2015.

Coloplast holds a share of 5 percent to 10 percent of the global moist wound healing wound care market, which is estimated to around DKK16 billion in size and growing 3 percent to 5 percent annually. This is slightly higher than the previous estimate and related to inclusion of a hospital channel in our definition.

Turning to our geographical segments, we saw organic growth of 6 percent for 2013/2014 in our European markets. Growth was driven primarily by UK, Germany and Nordic regions. Southern Europe continues its good performance on the back of good comparisons last year, and growth rates in France came in satisfactorily, but impacted by the price reform in September 2013.

Organic revenue growth in other developed markets was 10 percent in 2013/2014. We continue to see a satisfying performance across all business areas, especially in the US. We see a particularly good performance in ostomy care and continence care in the US where we continue conversion efforts towards Compact catheters and increase of our ostomy care sales pressure.

Finally, revenue in emerging markets grew organically by 24 percent in 2013/2014. The growth rate is up significantly from last year's 14 percent. This is a consequence of successful implementation of a number of growth

investments in the region. The growth came from across the region, but especially markets like China, Brazil and Greece delivered top performance. Finally, Russia started to deliver good growth as a consequence of higher tender activity.

I will now hand over to Anders, so please turn to slide number 5.

Anders Lonning-Skovgaard: Thank you, Lars. Good afternoon, everybody. Let's take a look at the remaining financials. Gross profit was up by 9 percent to DKK8.5 billion. This equals a gross margin of 69 percent, an improvement of 1 percentage point compared with last year. The improvement continues to be driven by higher production efficiency.

The distribution-to-sales ratio came in at 28 percent, on par with last year. This year, we invested close to DKK200 million in incremental sales, enhancing initiatives in consumer care, emerging markets, China and the US.

The admin-to-sales ratio came in at 4 percent of sales, which is 1 percentage point lower than last year. This was driven by improved (scale) effect from the top-line growth and generally improved efficiency, mainly through our business center in Poland.

All in all, this results in an EBIT margin before special items of 33 percent, compared with 32 percent last year. After special items, EBIT was 25 percent.

Let me add a few comments on the Mesh litigation. We still expect around 7,000 claims and we still expect that the current provision of DKK1.5 billion is sufficient coverage for that. Our financials are quite impacted from this, so I would like to spend a few minutes to walk you through it.

Operator, please turn to slide number 6. As you all are aware, we have DKK1 billion in special items in the P&L. This is the net effect of DKK1.5 billion provision and DKK500 million in insurance coverage. This reduces EBIT by DKK1 billion, and reported tax by DKK224 million, and net earnings by DKK776 million.

In the balance sheet, we see movements on the deferred tax assets, due to a reclassification of DKK21 million on tax in the P&L, and DKK224 million to the liabilities on provisions for deferred tax and income tax.

We have booked DKK418 million on the restricted cash as we have deposited cash on the US escrows for future settlements of claims against the Company. This covers the insurance sum received, DKK350 million, including exchange rate effects on the US dollar hedge. We still have DKK150 million remaining on other receivables which related to insurance coverage not yet received when we closed the books.

On the liabilities, the movement from non-current liabilities to current liabilities reflects the maturing of the litigation in general. You can find further information in note 18 in the Annual Report.

Finally, our cash flow is impacted by the net effect of receiving most of our insurance money, the payment of the legal fees, and the establishment of the US escrows. So hopefully, that clarifies the current financial impacts of the Mesh litigation on our financials.

Operator, let's move on to slide number 7. Operating cash flow amounted to DKK3.1 billion. The cash flow was impacted by higher EBITDA before special items, partly offset by on-account taxes paid in Q2.

In Q4, we received DKK350 million from insurance companies in connection with the Mesh litigation. Also in Q4, we deposited DKK418 million to be used for settlements in all the cases where we have reached an agreement in principle.

Cash flow from investing activities was impacted by movements in connection to short-term positioning of our liquidity.

And finally, our CapEx increased to DKK533 million, up 21 percent compared with last year, due to increasing investments in capacity for recently launched products and due to the site expansion in Nyirbator in Hungary.

We expect to return an additional DKK7.5 per share in dividends, bringing the total dividend to DKK11.5 in 2013/2014, compared to DKK10 last year. This corresponds to a payout ratio of 101 percent, compared with 78 percent last year. When disregarding the effect of the Mesh provision, the payout ratio is in line with last year.

The remaining part of our share buyback program is still expected to commence in 2015.

Please turn to slide number 8 for a few comments on our guidance for 2014/2015.

For 2014/2015, we expect revenues to grow around 9 percent organically and 11 percent in Danish krone. We expect to continue to see the positive impact from our sales investments, especially from emerging markets, US, China, and the new investments in the UK. We also expect an increasing contribution from our newly launched products, SenSura Mio and Biatain Silicone.

On the other hand, we continue to expect negative pricing of up to 1 percentage point impact on our top line, and that is reflected in our guidance. In 2015, France will be replaced by Holland as the market with the biggest price pressure. In addition, please also bear in mind that we had a very high sales in Q1 last year and, thereby, a higher baseline for many of the countries, especially within emerging markets and our wound care business.

For 2014/2015, we expect an EBIT margin of around 34 percent in both fixed currencies and in Danish krone. The main contributions in the guidance are a continuation of last year's efficiency gain in global operations and scale benefits in our administration. This is offset by higher unit costs associated with the higher sales from capacity ramp up of new products and also higher depreciations.

For years, global operations has been a major contributor to the overall value creation, through impressive efficiency gains in supply chain and production. Simultaneously, our innovation factories have improved ramp up processes of new products, in close cooperation with R&D.

These achievements were all part of the global operations plan introduced at the Capital Market Day in 2011. As Lars said, we recently released a new plan to follow up on that success.

The ambition of the new plan is to focus on a continued efficiency improvement, risk reductions, and launch accuracy of our new products. The plan covers a timespan of three to five years and has six specific tracks.

Our EBIT guidance also includes investments in sales-enhancing initiatives, which is expected to be in the range of DKK200 million.

Our CapEx guidance for 2014/2015 is around DKK650 million, and includes investments in more capacity for new products like SenSura Mio, Biatain Silicone, Compact Eve, and investments in the planned expansion of our Nyirbator site. The site expansion is expected to be finalized during spring 2015.

I would also like to mention in this context that we have also changed our expected long-term CapEx estimates from around 4 percent of sales to now 4 percent to 5 percent of sales. This change reflects largely increased capacity investments related to the higher sales expectations.

Our effective tax rate is expected to be around 24 percent, which is a reduction of 1 percentage point.

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

Operator: Thank you. Participants, as a reminder, if you do wish to ask a question, you will need to press star one on your telephone keypad and wait for your name to be announced. Should you wish to cancel that request, press the hash key. So once again, that's star one for question.

Your first question comes from the line of Michael Jungling from Morgan Stanley. Your line is open.

Michael Jungling: Great. Thank you. I only have two questions and they're all in relation to your guidance. When it comes to sales profile, do you expect the growth profile in constant currency organic to be fairly evenly spread throughout the quarters? Or do you expect, perhaps, a stronger second half, as we see more and more of these growth initiatives, with respect to new products, coming through? Notwithstanding, obviously, a tougher Q1 but more stronger second half versus first half.

When it comes to the EBIT margin expansion profile, we had a bit of lumpiness last year. Should we see more of a smooth margin development throughout the quarters, or is it going to be more lumpy and unexpected? Some sort of guidance on that I think would be very useful.

Lars Rasmussen: You are absolutely right, Michael, that we expect to see a stronger second half than first half. That is very much due to the fact that we had a very, very strong first quarter last year that we compare up against. So in that sense, that is also our expectation at this point in time.

I have to say that it's harder for me to guide you on the EBIT margin per quarter. But I would expect, all things being equal, that the EBIT margin at the end of the fiscal year will be somewhat higher than it is at the beginning of the fiscal year.

Michael Jungling: OK. And then a follow-up question on the gross margin; in the fourth quarter the gross margin was a nice improvement year on year, compared to the third quarter. Can you just explain to us – or explain why that was, given some of the issues that you had in Q3 would also come through in Q4.

Lars Rasmussen: I think that, Anders, he would like to fill you in on that one.

Anders Lonning-Skovgaard: Yes, thanks for the question. It's correct we saw some challenges on the gross margin in Q3 but it picked up in Q4, primarily due to higher nominal revenue, but continued improvement, especially in our Nyirbator site but also our sites out in China. That's the main reasons.

Michael Jungling: OK, lovely. Thank you very much.

Operator: Your next question comes from the line of Veronika Dubajova from Goldman Sachs. Your line is open.

Veronika Dubajova: Thank you so much. Good afternoon. I'm going to ask three questions, if that's OK? The first one is just trying to understand the movement in working capital. Obviously, I appreciate you've been building inventory, but inventory days have gone up 20 year on year. I'm just trying to see if you can give us some guidance as to how quickly you worked through that. Is the historical level appropriate, going forward, or not?

The second question is on R&D spending, which also saw a pretty meaningful step up in fourth quarter, so I don't know, Anders, if you have any guidance for next year.

My last question is more fundamentally just on the competitive environment in the market. I'm just wondering on the continence side of things, are you still seeing good conversion with the SpeediCath. Maybe if you can just give us an update on what proportion of your customers in the US you've converted, that would be very helpful, because that seems to be the key driver of strength in the US. I just want to understand how much of tail we have left here. Thank you.

Anders Lonning-Skovgaard: Thanks for the questions. The first one around the working capital, yes, our working capital has gone up a bit over the last quarter, and it is due to our inventory build-up in order to launch our SenSura products.

We have launched our SenSura products in 12 markets now and we are going to launch them in five more markets this financial year. And we have a big launch coming up in UK in January. So we expect that we will see more stabilizing inventory levels in the second half.

In relation to the second question of the R&D spending, our expectation is that it will be around the 3 percent that we also seen last financial year.

Lars Rasmussen: With regards to the competitive environment, you were quite specific about the US and the catheters. We have converted a bit more than 10 percent of our current business to the (coated) products, so this is still early days. You

are quite right, it's not completely driving our growth, but it's driving a major part of our growth in that business segment in the US. But we believe that to be on an accelerating curve.

Veronika Dubajova: Perfect. Thank you, gentlemen.

Operator: Your next question comes from the line of Niels Leth from Carnegie. Your line is open.

Niels Leth: Good afternoon. Could you tell us a little bit more about what impact sampling of SenSura Mio products have had on the profitability in quarter 4?

Also, to what extent would you expect that relocation of production of the SenSura Mio products from Denmark to Hungary would trigger extra costs in, say, second half of next year? Thank you.

Anders Lonning-Skovgaard: Thanks for your questions, Niels. The first one around the sampling, yes, we sampled a lot during the Q3 but we don't have any details on how that is impacting our margins.

The second one around transfer of our SenSura production, overall we can say that we have guided a growth of 9 percent and an EBIT margin of 34 percent next year. Our overall ambition is to improve our EBIT margin between 0.5 and 1 percentage point over the next three to five years. And the transfer of our SenSura will, of course, have an impact in order to reach those ambitions. So that's my comment on that.

Lars Rasmussen: Just to add to what Anders is saying, we don't expect that it will be visible in the numbers that now we are moving SenSura Mio from Thisted to Hungary and, therefore, you will see a dip because of the cost of that in a quarter. That's not how you should expect to see it.

Niels Leth: How many production lines are we talking about?

Lars Rasmussen: I think that is a very, very detailed question, Niels, and I'm not sure that you need to know that.

Niels Leth: Just the magnitude of this relocation.

Lars Rasmussen: Yes, but it's not a question that we would like to follow through on. It's not like you fill up a factory in Thisted and then in one go you close it down and move all of it to Hungary. You do it as we have capacity to move it out, and as we feel that we have transferred the processes and the knowledge that we need to transfer. So it's a very smooth process and you will not notice it in the numbers.

You will notice that we still get the impact on the gross margin, and that's also what we have guided; that we are, over time, still expect to increase our gross margin. And they are impacted right now from the fact that we are in the middle of a very big launch of SenSura Mio and that we have manufacturing in Thisted.

Niels Leth: OK, that's great. Thank you.

Operator: Your next question comes from the line of Alex Kleban from Barclays. Your line is open.

Alex Kleban: Three questions from me; I'll just go one at a time. The first is around the dividends and the issue of distributing funds under the legal settlement.

Just to get a sense of if you were to see more payouts, or more distributions under the settlements than maybe you'd expected or budgeted for, would you have any risk against the dividend? Or is there some way that you can maintain the balance and not reduce the dividend, and still make any commitments that you have in terms of the settlements?

Anders Lonning-Skovgaard: Thanks for your question. No, we don't see any risk on our dividends.

Alex Kleban: OK, perfect. Then a second one just on cash – actually two on CapEx, so the first one is, you've spoken in the past, I think it was (Lene) actually, around getting some subsidiaries in Hungary for the investments that you're putting in there. I'm just wondering if your CapEx guidance for this year includes any of that, and if not, when that subsidy might hit.

Lars Rasmussen: We don't have any of those numbers into the CapEx guidance for this year. And they come in – you know there are a number of criterias that we have to live up to in order to release the extraordinary funds that we get when we are moving on. And that means that it will take us some years until we see the benefit of the investments that we're doing right now.

It takes some years until we see the benefit from that and until we get the funds release from the government, because it depends on how many people that we employ and also that they are employed after a number of years.

Alex Kleban: OK. So this is the kind a 16-plus type?

Lars Rasmussen: Yes.

Alex Kleban: Sorry, I was going to say that last question, I didn't know if there was any more on that, just last question was around regional footprint for manufacturing. You're talking now organic sales growth is up, we have to invest and bring in some more capacity. Would you, though, at some point look at a third region like Latin America, for instance, where you could supply the US and invest significantly more for a period of a few years to establish a footprint there? Or would you be looking more just expanding what you already have in Hungary and/or China?

Lars Rasmussen: The reason why we have the footprint we have right now is where most of what we have is in Europe is because 68 percent of our sales right now is in Europe. So the fact that we are growing now 24 percent in emerging markets (in 2014) or more than 10 percent in other mature markets means that, next time, we are going to make an expansion, we, of course, will consider carefully where that should be.

We don't have any religions about where we have our footprint; we try to put it in places where it makes sense vis-à-vis the sales that we have. The reason why we only have two large areas outside of Denmark right now is because it's most cost effective to have bigger places, but you have to take into consideration the geographical distribution.

So therefore, I can't answer you right now, but when we approach the point in time where we need to make a decision, we will be very clear about that, of course.

Alex Kleban: OK. So net/net in percentage of sales that guidance probably holds for the next two, three years I guess?

Lars Rasmussen: Yes. We normally build for three to five years, but right now we have a bit higher growth than what we anticipated, so it might be that it's a bit earlier in that timeframe.

Alex Kleban: OK, good. And then just one quick one, sorry to monopolize the call, but just on wound care, do you have any sense of who you're taking market share from in wound care, because I guess six quarters in a row now, it must be, you're growing ahead of market?

Lars Rasmussen: No, we don't know. Unfortunately, we are still a small player in that field so we can't see that.

Alex Kleban: OK. Thanks a lot.

Operator: Your next question comes from the line of Oliver Metzger from Commerzbank. Your line is open.

Oliver Metzger: Thanks a lot for taking my question. The first one is on the price pressure. You mentioned again price pressure of almost minus 1 percent, so I believe many products came with a premium to previous products to the market, so can you probably specify a certain area which suffers currently from something stronger than price pressure? That's my first question.

My second question, it's more a modeling one. So for next year, you've got full CapEx of DKK650 million and you also guide for a long-term CapEx spending of 4 percent to 5 percent of sales. So beyond next year, do you think it will come down slightly or do (you have) from your midterm plannings also, I would say, higher CapEx plannings?

And my last question is more hypothetical one. So it's (targeted) EBIT margin guidance of 34 percent; I think in the past we saw sometimes where a stronger operating development converted in a higher margin, but the money was spent in additional sales initiatives. So for next year, if your margin tends to develop better than you think right now, would you just spend the money again or would you just earn it?

Lars Rasmussen: The price pressure part, the way we guided is that it's up to 1 percent per year, and we have also made no secret out of the fact that we can feel that we are on the other side of the financial crisis. Therefore, there are less initiatives, at this point in time, than what we saw when it was peaking.

What we are also saying now is that where we feel the biggest price pressure it's not a reform, per se, but where we feel the biggest price pressure is actually in Holland where the insurance companies are putting pressure on the spend within the categories that we are inside. So that's where we feel the most.

We feel that we are caught by the 1 percentage points that we are revealing and that is also part of the guidance that we are giving for the 9 percent growth and around 34 percent EBIT margin.

On the CapEx side, you are correct that it's a bit of a peak year we have. It's due to the big investments that we are doing in SenSura Mio and it's also due to the fact that we're investing in factories. So when I say peak I mean, percentage-wise, vis-à-vis the sales of course, of course you will see that we need to invest some money every year because we are growing as fast as we are doing now. I think actually we have been discussing this a lot and we think it's a very healthy balance that we have with how much we're able to grow on the CapEx ratio that we have right now.

When it comes to your question about how we distribute between EBIT and investments in top-line growth, what we are committed to is to deliver or to create value. And we always do the math of how we spend in the light of how to create the best possible economic profits.

And with the EBIT margins that we have right now, it makes a lot of sense to get a higher top-line growth, but then you cannot just make that as one decision because you also need to take into consideration what are the competences in the organization and the pressure on the organization.

So we will always try to optimize the spend we have so that we deliver the best possible value creation from the Company and, therefore, it's hard for me to just give you a simple answer on this one.

Oliver Metzger: OK. Thank you very much.

Operator: From the line of Yi-Dan Wang from Deutsche Bank. Your line is open.

Yi-Dan Wang: Thank you very much. I have three questions. The first one is, on the US ostomy business, can you give us some ideas of how you expect that to develop in the upcoming year, whether there will be any significant changes in the business with regard to GPOs that we should be aware of?

And the second question is relating to the distributors of your products. Can you give us some sense of how they are consolidating and how that is impacting your competitiveness in the market?

And then the third question is a financial one. It would be great to give some guidance on how the net financial income or expense would be in the coming year, given where you expect FX rates to be. Thank you.

Lars Rasmussen: In the US ostomy business, we have felt this year that we had a very, very successful year last year on the Brava accessories side where there was also some markets, or stock filling in the market of the new products that came out. So we have been growing very strongly in the ostomy market in the US, but not as strongly as the year before.

We expect that to level out in this year and I'm saying that also because we are now launching SenSura Mio in the US. And the initial reactions that we have from that market is as positive as they are – or they are as positive as they have been in Europe, so I expect that the success that we are enjoying in the US also very stable.

And on top of that, we are investing and have invested a lot, as you know, in the consumer journey in the US. So our ability to generate leads and to get new patients on board is constantly growing. We feel very good about the US ostomy business.

Also, actually, we feel that all of the businesses in the US are actually performing very well. In a sense, I would like to say that, on the distribution side, we feel that it's more or less the same picture as we had last quarter. The distributors are very powerful players in the channel, and they continue to be that.

What is new is that we invest more in order to generate leads. We invest more in order to create awareness about our products and the difference to our products, and we invest to make sure that people also know how they can switch to our products if they would like to try them.

That's basically what we see in the US, so in that sense, I would say, compared to last quarter and in a sense last year, it's business as usual.

Anders Lonning-Skovgaard: And in terms of your third question around the net financial income, we expect in the range of DKK140 million to DKK150 million.

Yi-Dan Wang: Of income?

Anders Lonning-Skovgaard: No, of expense.

Yi-Dan Wang: OK. And that's primarily driven by the FX, presumably?

Anders Lonning-Skovgaard: Yes.

Yi-Dan Wang: OK. And then, Lars, just to follow up on the distribution. Thank you for the US part of it; can you also comment on the other regions as well? Is it the same kind of thing or are they different investments that you're (replacing)?

Lars Rasmussen: Yes. I would say that distribution in the US is, in a sense, it's a very different thing compared to how you see it in Europe. In Europe, you have some homecare companies that are playing the same game as many of the (PME)

dealers that are doing in the US, but that's a fraction of the market that goes in that direction.

We have the same efforts across the globe, not across the globe but across Europe and across the US, to reach out to consumers and to educate them what options that are available. We think that we are very successful in that and you can read it directly in the growth rate that we have in the Company.

I think that the balance that you need to strike in order to have a good relationship with dealers to drive your business, and also to be on your own, so to speak, where you're able to represent yourself, I think we have the right balance and it's a healthy one.

Yi-Dan Wang: OK. Thank you very much.

Operator: Your next question comes from the line of Martin Brunninger from Jefferies. Your line is open.

Martin Brunninger: I have a couple of questions. The first is on ostomy; it seems like you outgrow the market for quite a while now by 2 percent or 3 percent and I'm hearing that you win a particular market share from Qualitech. Could you maybe give us rough flavor of what the strategy is there, what worked for you and how sustainable the outgrowing of the market is in ostomy?

And also, quite interestingly we heard from another competitor of yours today that particularly in Europe, UK and Germany has been very tough for them and a very difficult environment. You've said that these are particularly good countries for you and you've seen interesting growth in Germany and UK. Maybe you can give us some indication of what's going on in these jurisdictions?

And thirdly, on litigation update, if you can give us some update of what's going on there? Thanks very much.

Lars Rasmussen: Well, in a sense, I have to be a big general when it comes to the ostomy strategy because, when you have medical devices, product matters. And there is no doubt that we have a very strong product offering and a very good

pipeline of new products coming to the market, both in ostomy care and continence care and urology care. So point one, we have good products.

Point two, we have invested in a competitive footprint, so we have the sales pressure in every market that we need to have when it comes to Europe. We start to have that in the US and we are investing quite a bit to have what we consider to be the right footprint in emerging markets. That's why 60 percent of our investments are going in the direction of emerging markets in these years.

We have invested in the consumer channel, which means that we are able to speak to a large number of patients inside of ostomy and continence care. It also means that we are able to reach them when it comes to the Brava accessories, and also when it comes to new products that we're launching. So they all work, you can say, in the direction of gaining market shares.

The question that we have around the UK and Germany and referring one of our competitors, I would expect that that would be Smith & Nephew that you are talking about or how's that?

Martin Brunninger: Yes.

Lars Rasmussen: OK, but that's in wound care and that's a bit of a different animal, I would say. You should distinguish between what we call the chronic business, ostomy and continence care, and then wound care where the market dynamic is quite different and the market growth is quite different also. I can confirm that the markets are much more difficult in Europe than they are other places in the world. We think that we have a good traction in UK and Germany, but you also have to remember that we come from a small base.

With regards to the litigations, it's more or less what it was last time. We are making good progress on the settlements. Therefore, with the settlement amounts that we have we feel confirmed that we are also having the right provision for these litigations.

Martin Brunninger: OK. Thanks very much.

Operator: There are currently no further questions on the telephone lines. Speaker, please continue.

Lars Rasmussen: OK.

Operator: Sorry, we've just got one further question coming from the line of Veronika Dubajova from Goldman Sachs. Please ask your question.

Veronika Dubajova: Sorry, Lars. I figured I'd take one more minute since you have a bit of time. Two questions from me, was one on urology, it seems like the swing in the mesh portfolio didn't perform particularly strongly in the fourth quarter, or at least it decelerated relative to what you've seen year to date. Can you help us understand why, and is there anything that you're seeing in terms of changes in the market or who's winning share? That would be really helpful.

The second one is a question on the margin guidance, and in particular in Danish krone terms. Anders, if I look at what's happened with the forint, it looks like you should be getting a nice little FX benefit on the margin side as well. Any reason in particular why you didn't guide for that or is it just not big enough to move the needle from 34 percent to 35 percent in your view?

Lars Rasmussen: I can't give you a good explanation on what is happening on the female health side. It's a quarter and, in that sense, we feel no difference in the market and we feel that the conversations we have, the number of planned surgeries and so on, we feel that that's more or less in line with what we expected. So there's nothing where we are saying this is something that we should be very aware of.

So I really can't fill you in on that one Veronika, I'm sorry.

Veronika Dubajova: That's fair enough, as long as you're not seeing a change we'll wait for what the next quarter looks like, that's fine. I just wanted to make sure.

Anders Lonning-Skovgaard: And in terms of the FX impact on the bottom line, we have guided the 34 percent, so we don't see any further impact on the EBIT margin.

Veronika Dubajova: OK, Anders, but will you get a benefit from the Hungarian forint depreciation, or is that offset by some other currency moves?

Anders Lonning-Skovgaard: It is offset by others and the impact is small.

Veronika Dubajova: OK, understood. Thank you very much.

Operator: A question coming from the line of Soren Holm Sorensen from Nordea. Your line is open.

Soren Holm: Just one question from me. I see in the report in the note 9 that you are mentioning litigation investigation on the marketing and promotion activities in the US related to ostomy and continence. Obviously, you don't expect this to hit you, so my question is more, looking in the past some of your competitors have been quite aggressive in capturing distribution with the bonus agreements, et cetera, maybe locking them off for you guys. Do you see an opportunity for this investigation to open up the US market in some way?

Lars Rasmussen: What was the question, say that again?

Soren Holm: A potential for this investigation to open up the market making competition more open, as one of your competitors might have some issues with the marketing and promotion strategies in the past.

Lars Rasmussen: OK. I think that is definitely difficult for us to speculate in, so I couldn't comment on that, Soren. We don't view it positively at all that we have to take part in an investigation like this, but of course if we do, we have to and we do play the part that we have to do in this. We are completely open and participating in this, but it's not something that we consider to be value creating at all.

Soren Holm: OK. Thank you.

Operator: There are no further questions. Speaker, please continue.

Lars Rasmussen: All right, thank you very much for participating and we're looking forward to seeing you over the next weeks. Thank you very much.

Operator: That does conclude the conference call today. Thank you all for participating, you may now disconnect.

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