

COLOPLAST

Moderator: Lars Rasmussen

January 29, 2015

3:00 p.m. GMT

Lars Rasmussen: Good afternoon and welcome to our Q1 14/15 conference call. I'm Lars Rasmussen, the CEO of Coloplast. As usual, I'm joined by our CFO, Anders Lonning-Skovgaard, and our investor relations team. Anders and I will begin with a short presentation, and then we will open up for questions.

Please turn to slide number three.

Q1 2014/2015 was a disappointing quarter. Despite a very good performance in many parts of our Company, we find it appropriate to adjust our expectations downward on our top line. We delivered 6 percent organic growth, which was less than we expected in the beginning of the fiscal year.

Let me jump straight to the underlying reasons behind the revised guidance.

Entering the fiscal year, we expected our Q1 growth rate around 2 percentage points lower than the full-year guidance due to strong comparison numbers in Q1 last year. This was also flagged during the last conference call, but our U.K. home care company, Charter Healthcare, brought an unpleasant surprise. The company's prescription-handling processes had been inadequate, resulting in depressed sales. We also experienced a much larger drop in (tender) revenues in Russia than we expected earlier.

For 2014/2015, we now expect an organic revenue growth of 8 percent to 9 percent, but we still expect an EBIT margin of around 34 percent in fixed currencies.

Please turn to slide number 4.

Revenues were up by 6 percent organically and 8 percent in Danish kroner, and amounted to around DKK3.3 billion.

In ostomy care, organic growth was 5 percent, and growth in Danish kroner was 6 percent. We saw satisfactory growth in many countries like Germany, China and Argentina, which was offset by negative growth rates in US, Russia, Brazil and the U.K..

Our SenSura portfolio (showed) growth with solid performance, especially in Germany, France and Italy. Our Assura portfolio had growth driven by China, Argentina and Spain. And growth in our Brava accessories range, especially in Europe and the US, was challenged by high comparables last year and lower campaign activity in the U.S. during the quarter.

SenSura Mio was launched in Sweden and Poland in Q1, making a grand total of 14 markets so far.

In continence care, organic growth was 8 percent, and growth in Danish kroner was 10 percent. The SpeediCath ready-to-use intermittent catheters continue to drive growth, and especially the compact versions performed well. During Q1, we delivered our first large tender win in Saudi Arabia, which contributed nicely to growth.

Looking at the negative contributors in the quarter, especially the economic situation in Russia, has significantly lowered tender revenues. The challenges in Charter Healthcare and a generally high Q1 last year in the U.K. affected performance negatively.

Performance in our Conveen collecting device portfolio was negatively impacted by low sales in the Netherlands, Russia and Ukraine.

And finally, the Peristeen sales growth remained satisfactory, especially in France, Germany and Italy.

SpeediCath Compact Eve has now been launched in 10 markets and feedback remains very positive.

In urology care, organic growth was 8 percent, and growth in Danish kroner was 11 percent. Sales of the Titan range of inflatable penile implant devices continue to drive a strong performance. We saw low growth within female pelvic health in the quarter, driven by lower sales of our older Aris sling.

And finally, but not least, our endourology business continues its very satisfying performance.

In wound and skin care, organic growth was 4 percent, and growth in Danish kroner was 7 percent. Organic growth for wound care in isolation was 9 percent. The growth was driven by our Biatain sales, in particular Biatain Silicone in Europe. A tender in Saudi Arabia also impacted our wound care business positively.

The skin care business was negatively affected by stock building by a large distributor ahead of an announced price increase last year. And finally, our contract manufacturing of Compeed contributed negatively to the growth.

I would also like to mention that we have launched Biatain Silicone in 12 countries so far, and we are very happy with this.

Turning to our geographical segments, we saw organic growth of 4 percent for Q1 2014/2015 in our European markets. The growth was very satisfactory in France, Germany and the Southern European region, whereas the Netherlands and the U.K. contributed negatively to the growth rate.

As we have mentioned before, we see high performance -- we see high market volatility in the Netherlands due to reform pressure. The performance in the U.K. I have already talked about. And finally, our contract manufacturing business of Compeed impacted the growth negatively in the quarter.

Organic revenue growth in other developed markets was 1 percent in Q1. Distributor buying patterns within one of our largest U.S. customers impacted

the growth dramatically in the quarter. This impacted both the U.S. ostomy and continence care businesses. We expect full recovery from this in Q2.

The growth was also slightly hampered by high comparison numbers within our Japanese business where a price reform last year led to stock building at distributor level in Japan in Q1 2013/2014.

We have recently signed an agreement with (Aris) -- our Japanese home care activities. Japanese home care company was largely just a box mover, and we could see beneficial opportunities in being an independent manufacturer in the Japanese market.

We are now able to focus on our core business, and with (no internal conflicts), we can better utilize our direct-to-consumer capabilities.

Finally, our revenue in emerging markets grew organically by 23 percent in Q1. 2014/2015, the growth was especially impacted by Saudi Arabia, China and Argentina, which all grew satisfactorily, whereas both Russia and Brazil had a tough quarter. Both markets were impacted by political situations which led to changes in tender activities.

Within the smaller markets, Turkey, South Korea and Mexico saw quite good growth rates.

I will now hand over to Anders, and 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 8 percent to DKK2.3 million. This equals a gross margin of 69 percent, an improvement of 1 percentage point compared with last year.

Improvement continues to be driven by higher production efficiency and product mix of existing products. We saw an expected negative impact from the launch of new products where the production economy is not yet fully optimized and costs associated with the expansion of our Nyirbator facility.

The distribution to sales rates came in at 29 percent, 1 percentage point higher than last year. The quarter is impacted by incremental sales investments in China, emerging markets and the U.K. of around (DKK50 million). So we continue our sales investment program according to plan.

The admin-to-sales ratio came in at 4 percent of sales on par with last year. This continues to be driven by improved scale effects from top-line growth, and generally improved efficiency mainly through our business center in Poland.

The R&D-to-sales ratio came in at 3 percent of sales on par with last year's average. We have staffed up in our R&D Department, and we are running at a high activity level, which is also reflected in the higher spend in the quarter compared with the same period last year. All in all, this results in an EBIT margin of 33 percent in line with the same period last year.

Just 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 provides sufficient coverage for this.

Operating cash flow amounted to DKK646 million, which was in line with last year. The cash flow was impacted by on-account taxes paid earlier, which lowered this quarter's payment.

In Q1, we received the remaining DKK150 million from insurance companies in connection with the mesh litigation. So the insurance has now been paid in full to Coloplast. We also continue to deposit in escrows used for settlement in all the cases where we have reached an agreement in principle.

Cash flow from investing activities was impacted by movement in connection with short-term positioning of liquidity.

Finally, our CapEx increased to DKK147 million, up 34 percent compared with last year due to increased investments in capacity for recently-launched products, and due to (site experience) in Nyirbator in Hungary.

Please turn to slide 6.

For 2014/2015, we expect revenues to grow between 8 percent and 9 percent organically, and 12 percent to 13 percent in Danish kroner. In guiding for 9 percent growth in 2014/2015, we have anticipated a Q1 of around 7 percent, impacted by a strong comparison base in Q1 last year.

As Lars already explained, we saw a growth contraction in Q1 equivalent to around 1 percentage point lower than anticipated. At this point, we are already deeply involved in solving the issues in the U.K., but the precise timing of this has led us to revise our growth expectations to 8 percent to 9 percent.

In Russia, we have seen a drop of up to 50 percent in tender values in Q1. This was bigger than anticipated last year.

I should mention that we continue to expect negative price pressure of around 1 percentage point on our top line, and this is reflected in our guidance. It is especially driven by Holland, where prices and ostomy products are coming down.

For 2014/2015, we still expect an EBIT margin of around 34 percent in both fixed currencies and Danish kroner. The main contributors to this 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 higher sales from capacity ramp up of new products and higher depreciations.

We currently expect our net financials to end the fiscal year at minus DKK275 million, impacted primarily by cash flow hedge losses on especially British pounds and the U.S. dollar.

The guidance continues to include investments in sales-enhancing initiatives, which is expected to be in the range of DKK150 million to DKK200 million.

Our EBIT guidance for 2014/2015 remains unchanged at around DKK650 million, and includes investment in more capacity for new products like SenSura Mio, Biataine Silicon, Compact Eve, and investments in the planned

expansion of our Nyirbator site. We expect to open this site in April 2015. Our effective tax rate is still expected to end around 24 percent.

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

Operator: Thank you. If you would like to ask a question please press star and one on your telephone keypad. That's star and one to ask a question.

You first question comes from the line of Alex Kleban of Barclays. Your line is now opened

Alex Kleban: Yeah, hi, thanks for taking the question. I guess I'll ask them one at a time, if that's OK. The first one is maybe you could go in a bit more depth on Charter and just explain to us how much of this is really a process issue and how much is the risk of maybe some market share that's been lost that might not be able to be recovered?

Lars Rasmussen: Yes. First of all, the U.K. business is a quite (large) business for us. It's a couple of billion kroner all in all. And the U.K. business is actually in a sense two parallel businesses.

We have a business which is the one that we have in all of our subsidiaries where we sell our products directly to distributors and also pharmacists. And then we have a direct patient business which is quite sizeable, and that is a business where we are selling both our own products, but also our competitors' products directly to the end users.

As the -- as more and more prescriptions are being changed from paper prescriptions to digital prescriptions, we've faced some process issues in the way that we are handling these prescriptions, because we need to have the prescriptions on board before we can send the products directly to the end users.

And that leads to a longer lead times to deliver products, and that means that those customers who have not been satisfied with that, they have changed to

other pharmacies or to other independent (DACs), as they're called, distribution companies, where they then buy our products through the Internet.

So you can go and buy your products in many different places. So what happens when that is going on is that we are actually losing the dispensing fee that we get in connection to an order which we are handling. So that is why we feel it directly.

And so in a sense, this is very different from the rest of our businesses, because here, it's more like a normal consumer business that if you have too long lead times, people can buy the product in a different place, which is what happened here.

So our base business is still growing, but what we feel immediately is the impact from the loss of the fees because somebody (intercepted) the order. And because it's hard for us to gauge exactly when the customers are coming back and using our (source), that's actually the background why we are adjusting our top-line growth this year, because this is the situation which we have no experience with before and we didn't know it when we entered the year. So to be cautious, we simply said we take it down from 9 percent growth to 8 percent or 9 percent top-line growth. So that's the prime reason.

Alex Kleban: OK. And maybe a quick follow-up. But on that, you have been investing I think pretty heavily in the U.K., if I'm not mistaken. So is that a market where you've had maybe more (reps) going in than what you would have had in other markets in Europe over the past year? And how does that help to offset some of this?

Lars Rasmussen: Yes. We have invested in the U.K. to (visit more masses), and that is to sell our new products. And that pressure of course continues because it's in a sense a completely different situation than what we are talking about here.

This is all about us being able to handle direct patient contacts across our own and competitor products. It's not about the assignment to get more new patients discharged in the U.K..

We have launched in the U.K. and Spain, and we have also more sales people, or i.e., a bigger share of voice in the U.K. at this point in time compared to last year.

Alex Kleban: Do you have anything in numbers in that share of voice given your return this year?

Lars Rasmussen: Say that again, please?

Alex Kleban: In terms of in your budget or in the guidance, do you have an expectation of that additional share of voice you mentioned? Is that expected to yield the return, or yield some additional growth that's in numbers, or is it not in guidance?

Lars Rasmussen: What is in our guidance is that we expect the U.K. to grow less for full year than what we had in our original guidance. And the reason for that is that, as I think you can derive from what I've talked about in the beginning, then the revenue that we have lost in the first quarter due to the loss of the fees, it's gone. It doesn't come back. We can't recover that later on. So that's the reason for that.

So everything that we do know all about this situation in Russia and so on is included in the guidance that --

Alex Kleban: OK. That's fair enough. Thanks. Sorry if I did too many follow-ups there. Just then a quick one on gross margin and then I'll go back in the queue.

Oil price drop. In the past, you said there was something like a \$10 -- per \$10 drop, there was a DKK10 million uplift on EBIT. I think that was a few years ago. Just wondering what that means now.

And also, you talked about some impact from the new launches and some maybe what looks like one-off costs in Hungary on the gross margin in this quarter. Just wondering if you could quantify all those things together.

Lars Rasmussen: Maybe I'll ask you if you would like to give a few words on that.

Anders Lonning-Skovgaard: In our EBIT guidance, we have effected a small upside on the oil price. And in terms of the new product launches that we see this year, as we have said also last year, that we have high unit costs for some of the new products, the new Mio and the Biatain Silicone. And that is also impacting our gross margin for the deals reflected in our EBIT guidance.

Lars Rasmussen: And we are starting to move out manufacturing of the new Mio products this spring to Hungary and so it is as we planned.

Alex Kleban: So do we get to see some benefit then from April from the new launch in Hungary in terms of the H2 gross margin sequentially improving then?

Lars Rasmussen: It's definitely in the guidance that we're giving.

Alex Kleban: OK. Very good. Thanks. I'll get back in the queue. Thank you again.

Operator: Thank you. Your next question comes from the line of Ian Douglas-Pennant of UBS. Your line is now opened.

Ian Douglas-Pennant: Just a quick one on your U.S. ostomy business. You talk about the impact of stock in there. I just want to work out is it all stock in the disappointment, or are you seeing some fallout from ConvaTec's more aggressive pricing strategy? They claim to be gaining market share there.

And then also, maybe you could just explain the dynamics of the skin care stocking patterns. I'm not sure I see the link between a price shift Q1 2014 and your impact on this year's numbers.

Thanks.

Lars Rasmussen: In the US, half of the rebate that we grant the distributors is because they are then obliged to sell us their sell-out data. So we know quite well what our sales in the market is, and that is actually as we expected.

So that means that what we are looking at when we have very low growth in the first quarter for both ostomy and continence care is an adjustment of stocks, and that is something that we actually -- that market does have

(effects) on. So that's also why we are quite firm that we expect to recover for the remaining part of the year.

I don't know if that answers your question, but that's basically what we had. We have had some on the table for this specific one.

And for the skin care business, it is a pretty small business and it is very -- it is actually very volatile in the sense that it depends what was bought in the quarter that we compared against. But it had a high base in Q1 last year, and that was driven by (Camel Medical), because we ran some price increases, and therefore effective of January 1, 2014. So that's basically it.

And I'm actually happy to say that our wound care business, once you look into the numbers, is actually doing really well. And we also expect the skin care business to catch up big time this year.

Ian Douglas-Pennant: OK. Great. So it's just a comp effect. It's just that simple. And Q2 we should be back to normal.

OK. That's very helpful on both counts. Thank you very much.

Operator: Thank you. Your next question comes from the line of Michael Jungling of Morgan Stanley. Your line is now opened

Michael Jungling: I have three. Firstly, in your full-year organic sales growth guidance, what growth are you expecting for other developed markets for the full year?

Secondly, on the emerging markets, you talk about drop in tender volume in Russia and Brazil. But if you look at your growth rates comp adjusted, it is a blowout. It's the strongest momentum number that we've seen for at least four years. And hence, I find your comments strange that still so strong, yet some of the end markets you talked about are very weak.

Thirdly, were there any --? Were selling days different in the first quarter compared to the comparative period last year?

Lars Rasmussen: I didn't get that.

Michael Jungling: Pardon me?

Lars Rasmussen: Your last question, what was that?

Michael Jungling: The last question was, are the selling days, the number of selling days, the same in Q1 as they were last year?

Lars Rasmussen: I don't think that we have ever (pulled) down a level where we started to (tell you) our guidance for any other quarter or full year for the different regions that we in, and I'd like not to do that again. I think that you appreciate that very few of our competitors are public with their numbers, so I think that we already tell an awful lot so that I can't really say that.

I basically understand your comment about the emerging markets, and it's correct that we actually have -- I think that what you're saying is that we have strong numbers despite the fact that we are talking about a weak performance in both Russia and in Brazil. But the fact is that what we have been selling, or the volume over the last few years is that since we started to invest in (2000, and so on), we have been investing in further growth in emerging markets and in a number of regions. And that's also why we are able to absorb in the first quarter the fact that both Brazil and Russia are weak.

But Brazil and Russia are quite meaningful to the overall performance longer term, and Brazil is recovering and that will be -- they will come (home) on their numbers. But Russia is doing worse than what we actually anticipated when we entered the year. And since it is China, Russia and Brazil that are the biggest parts of our emerging markets, we find it quite appropriate to talk about that.

Regarding the sales days, we have same number of sales days as same quarter last year.

Michael Jungling: Great. And sorry; a follow-up on other developed markets. Because you won't give us precise guidance, is it fair to say that you will expect an acceleration in organic growth in the remainder of the year compared to the first quarter? That seems to be a reasonable assumption.

Lars Rasmussen: That's for sure, because we had 1 percent growth in the first quarter. So we can't believe our guidance of 1 percent growth in the remaining quarters. We expect that should pick up significantly, of course.

Michael Jungling: OK. And on the financials, I think I didn't quite hear it clearly. Did you say net financial is minus DKK230 million for the full year?

Anders Lonning-Skovgaard: No. I said we expect to be DKK275 million minus.

Michael Jungling: Great. Sorry. I misheard. Thank you.

Operator: Thank you. Your next question comes from the line of Martin Parkhoi, of Danske Bank. Your line is now opened.

Martin Parkhoi: Hello it's Martin Parkhoi actually from Danske Bank. Just a quick question, firstly, on emerging markets. Could you actually give us the growth in emerging markets if we exclude Russia and Brazil?

And then also on that, Brazil, how can it be that you are so certain that the growth will pick up in Brazil? Because I guess that the economic situation in Brazil is still not particularly good.

Then a second question is that on a quarterly basis, with the rebound from the -- or the changed buying pattern that we will see a rebound in the second quarter from the US, should we then expect to see a particular strong second quarter, also stronger than the third quarter and the fourth quarter should be?

And then the final question, just going back to Charter Healthcare where you see some lost sales, could you give some kind of indication on the probability of Charter? I guess that that maybe is lower than the Coloplast level due to its -- you're also distributing competitor products.

That was all.

Lars Rasmussen: In a sense, Martin, there's no limits on what we could give you, but we are a bit -- I know that you think that we tell you too little about what we have as country performance. But as I said before, we also think that we are very open and we know that our competitors are being filled quite well in with what

happens to us, and we don't get the same kind of information backwards. So in that sense, we hold back a little bit.

But when it comes to Brazil, how can we be so certain. what we know about the first quarter in Brazil is that due to election, there are a number of states in Brazil that are changing some of people in the government. And therefore, they are not able to issue tenders and they are not able to even pay bills. And we know that has affected us.

We can see that things are getting in order. We also see that the order stream is coming back. So that is what we base it on. According to our knowledge, this is normal procedure in Brazil, and that's basically what we are basing this on.

We do know the number of customers. We do know that people have the urge to use products so there will be some kind of sales. And if there's this money in the system all the time, I don't know if that will be the case for healthcare spendings in Brazil, then they'll switch to other products, but they won't stop using products.

We expect a rebound in the U.S., and U.S. has a very poor growth in the first quarter, and therefore, we expect the remaining quarters to be higher. I'm not going to guide you on how high for quarter 2, 3 and 4. But of course, we expect a completely different performance in the coming quarters than what we saw in the first one, and we actually see orders coming in as we speak.

Regarding Charter Healthcare, Martin, I'm not sure what is it that you're after.

Martin Parkhoi: I'm just after the probability on the sales in Charter Healthcare. It's, of course, a big part of your U.K. business, but I was just wondering the low sales, how much that impact actually has on profitability. Is this probability in your Charter Healthcare, it's probably lower than the Group level?

Lars Rasmussen: So, of course, the distribution business does have much lower margins than the rest of the business. The thing is that you get a dispensing fee, and that's basically to cover the cost of sending the products (away) in a sense. When we are losing a patient to a competing distribution company, we lose the

dispensing fee, but we don't have the cost to send the products either. So in that sense, it's more a top-line thing than it is the bottom line.

Martin Parkhoi: OK. Thank you very much.

Operator: Thank you. Your next question comes from the line of Veronika Dubajova, of Goldman Sachs. Your line is now opened.

Veronika Dubajova: I have three, please. The first one is: Can you give us a sense? I appreciate you don't want to disclose everything, but if I look at your (DM) growth last year, it was in high single digits, low double digits throughout the year pretty consistently. And I just want to understand if I stripped out the impact of the stocking and destocking at your distributor, or whether the growth rate would have been comparable to that. So just some commentary around that would be helpful.

Lars Rasmussen: So you talk about emerging markets here?

Veronika Dubajova: No. I'm talking about the US.

Lars Rasmussen: The US. OK.

Veronika Dubajova: The US. So just thinking, and I know you don't give us a U.S. growth rate consistently either, so I'm just -- but if you can just comment on the trend in the US, that would be helpful.

The second question is just on the U.K., and I'm a little surprised and, if I may say disappointed, because obviously, you've known about the changes to prescribing methods for a while. And so I'm just trying to understand what's gone wrong in the business and what gives you the confidence that you can address this in the timeframe that you've communicated to us. And are there any management changes that might come about as a result of this?

And my last question is just thinking about the overall M&A environment and if you have any updates or changes in your thoughts with regards to potential wound acquisition.

And I'll leave it at that.

Lars Rasmussen: The U.S. trends, I think the best way we can try to describe it is that we got well into the double-digit growth a couple of years back, and that is also what we expect to keep it at for this full year. So therefore, our sales in the market is unaffected by the first-quarter result, and actually, we expect to reverse that (factory) growth for the U.S. also this year.

Veronika Dubajova: That's very clear. Thank you.

Lars Rasmussen: U.K., we are (frankly) also disappointed about the situation that we have in the U.K., and it is unexpected to us that we had a guidance change and that we had this conversation right now. Otherwise, of course, we'd also have flagged that up front.

So it is new to us, and basically, it is a process robustness issue that we have in the U.K. which the moment that you experience that the process is not strong enough, we get longer lead times. When you get longer lead times, the call frequency on your call center just goes up by factors, and you just have to solve that situation.

We'll make sure that we have strong processes going forward. We have a completely different team on it, or we have a team of people which is much bigger than we have ever had to fix the problem now, and I'm sure that we can fix it.

We know what the problem is. We have a team that we are confident in. And that is basically what is on our mind right now; fix it and make sure that we can come back to the customers that we have and assure them that they can get the best service with us again.

On the M&A side, I can't add anything to that, unless you know something has happened since last time that you can inform us about.

Veronika Dubajova: No, unfortunately not. I just wanted to make sure that your priorities were still the same as they have been for a while on the M&A front.

Lars Rasmussen: Yes, absolutely.

Veronika Dubajova: But it sounds like no change.

Lars Rasmussen: Yes.

Veronika Dubajova: Lovely. Thank you very much. I'll go back into the queue.

Operator: Thank you. Your next question comes from the line of Ed Ridley-Day of Bank of America. Your line is now opened..

Ed Ridley-Day: Firstly, yes, just to follow up on the US, can you just give us a little bit more color, if you could, just about the change in distributor and why you felt you wanted to make that change?

That would be my first question.

Lars Rasmussen: But then I have nothing clear because we haven't changed any distributors. What we are saying is that we see less buying from a big distributor in the U.S. than what we had anticipated. And when we look into the sales-out data from this distributor, we can see that the sales out is unaffected, and that actually means that it's because that distributor is reducing stock. So that's basically it.

And that comes from I still expect from last year where there was some consolidation with the distributors, so they simply take stock out now.

Ed Ridley-Day: Thank you for the clarification. And just a quick follow-up to Veronika's question. As she said, you have put a new team in place but have you basically made the management changes necessary?

Lars Rasmussen: OK. Another clarification. Thank you for asking these questions because we have not put a new team in place in the U.K.. What we have put in place in the U.K. is a project team who is fixing this process. So we haven't changed the management team in the U.K.. We have strengthened the management team with a project team who are solving these process issues that we are having.

Ed Ridley-Day: Great. Thank you very much for the clarifications.

Lars Rasmussen: And I think you need to -- maybe I should just put a few more words on it then, because when you're running a big operation like this one which is a (direct-to-place ins) setup, it's a quite big setup with a very large call center to it. Once you do that, you really need, of course, to be very sharp on the processes that you're using and also the IT systems that are backing these up.

And in this instance, with the (call center) which is not strong enough, and of course it doesn't help to automize something which is not strong. So here we have process experts working to make sure that everything works well, and then we put it in a sense on IT and we have then fixed the flaws that are in there now.

Ed Ridley-Day: Great. Thank you.

Operator: Thank you. Your next question comes from the line of Martin Brunniger of Jefferies.. Your line is now opened.

Martin Brunniger: I actually have just one question on the US. Could you confirm that you have lost market share to competition recently, which underpins with your numbers that you've published today?

Given the market shares are relatively sticky, can you elaborate a little bit on the strategy to win this market share back and win more going forward?

Thank you.

Lars Rasmussen: I think that -- I can't even understand the basis for your question. We grow significantly above the market in the U.S. in our business areas. So we have won market shares, and we have also won market shares in this quarter.

The only thing that has happened is that distributors have reduced their stocks. But the sell-out that we see (to) market is double-digit growth, and thereby at least 3 times above the market growth in the US.

So I can't confirm that we have lost market shares in the US. On the contrary. We are winning market shares.

Martin Brunniger: OK. Thank you.

Operator: Thank you. Your next question comes from the line of Oliver Metzger of Commerzbank. Your line is now opened.

Oliver Metzger: Just two questions, please; the first on the guidance, on your EBIT guidance. So you've increased the sales guidance and then (drawn) due to a higher FX tailwind. And if I look on your cost base, especially the (You Garren Furren) seems to be now on a comparatively stable level compared to last year. Nevertheless, you don't expect an effect on the margin. So would you describe now your margin guidance as increasingly conservative compared to the guidance given three months ago?

And my second question is related to the price pressure which you mentioned you expect close to 1 percent, which is also a long-term guidance you have on the price pressure. So after having a little bit more color for this current fiscal year and also to Dutch market, would you describe this price pressure guidance as probably favorable or more closer to your assumed rate of minus 1 percent?

Anders Lonning-Skovgaard: If I should take the EBIT guidance first, we have guided an EBIT margin in the level of 34 percent, and we believe that we will continue to see a positive impact on our gross margin overall, even though we will have higher costs on our new launches.

In addition to that, we are also believing that we will see impact from scale, especially within our administration area. But on top of that, we are continuing to invest in the level of DKK150 million to DKK200 million. That will have a negative impact. But overall, we are believing to deliver an EBIT guidance of 34 percent.

Oliver Metzger: So is it fair to assume that some potential windfall profits from foreign exchange movements will be invested? Is this a fair assumption?

Anders Lonning-Skovgaard: We are guiding our EBIT in fixed and in Danish kroner to be in the level of 34 percent, and that is what we are aiming for.

Oliver Metzger: OK.

Lars Rasmussen: We are very careful not to mix up the two different guidances. Of course, if you look at what are we going to (believe) on Danish kroner, the nominal EBIT will be much higher than what we believe before due to what happened to the currencies. But we have to make sure that we are talking the same language here.

Oliver Metzger: Sure.

Anders Lonning-Skovgaard: And in terms of your second question around the price pressure, we see still the price pressure to be in the level of 50 to 100 basis points. And it is primarily Holland where we have price pressure, and especially within ostomy care. So that is something we have seen in Q1 and we will continue to see that throughout the year.

Operator: Thank you. Your next question comes from the line of Yi-Dan Wang of Deutsche Bank. Your line is now opened..

Yi-Dan Wang: I have three questions, the first question on Charter Healthcare. Can you give us a sense of how far your project team has gone in resolving the problems? And when do you have in your plan for them to complete their projects, and what are the chances that they don't complete on time?

And then the second question is on the Netherlands. Can you also talk about the dynamics that's happening in that market? When do we actually see the --? Yes, just some dynamics in the market as to how far we've got with this reimbursement change.

And then the third question regarding the financials. If rates continue at current levels, how should we phase that DKK275 million of costs that you've indicated?

Thank you.

Lars Rasmussen: I can start out with the Charter. I think that we are -- that we are getting closer to, very close actually to a normal situation in the U.K., but it takes some time to make sure that the processes, that we know that they are completely stable.

And it also takes some time to make sure that they are integrated as they should be in the IT systems. So we have the team there for as long as it takes to do that. What we have said, we'll be cautious. We're saying we'll fix this in 2015. And we have absolutely no reason to believe that we will not.

But as I said early on, some people now, some patients now are buying their products, our products, from another home care company back in the U.K., and we don't know how fast people come back and if everybody comes back. And that's actually the prime reason why we are a bit cautious on the top-line guidance for the year. And so that's what I can say about that.

In Holland, it's not a price -- it's not a healthcare reform in Holland. It's the healthcare insurance companies that are simply putting pressure on the ostomy prices, and they do that; they do that in a concerted effort. And we feel that we're in the market, and that means that even though we see the pressure on the prices, we still continue to take market shares in ostomy, but the ostomy patients have a bit lower value than they had before.

But still, as Lars said, we expect that we can keep the price pressure this year also within (faster demand, as we have said in our) guidance. And it is included in the guidance that we're giving for this year.

Yi-Dan Wang: OK. So the -- I was going to clarify on that.

Lars Rasmussen: That's fine.

Yi-Dan Wang: OK. I was just going to ask that -- so this price pressure the insurance company is putting on ostomy products, is it a one step down, or have you seen that effect peak already? And if not, when could we see that? Could it fall into next year?

Lars Rasmussen: We have seen the effect in the first quarter.

Yi-Dan Wang: Right. OK. We have seen the peak in Q1. OK.

Lars Rasmussen: And then would you take the financial question, Anders?

Anders Lonning-Skovgaard: Yes. In terms of the financial items, it is difficult to say, but it's in the level of 30 percent to 40 percent in the remaining -- the third quarter and the remaining quarters.

Yi-Dan Wang: OK. So let me see. DKK275 million minus consensus, which is -- OK. So DKK30 million/DKK40 million. Sorry. What --?

Anders Lonning-Skovgaard: So Q1, we had a minus of DKK28 million. And then we have -- the rest is in the level of the DKK250 million. So it's difficult to evaluate, but it's in the level of one-third per quarter in the remaining three quarters.

Yi-Dan Wang: OK. Great. Thank you.

Operator: Thank you. Your next question comes from the line of Scott Bardo of Berenberg Bank. Your line is now opened..

Scott Bardo: I have a few, please. Firstly, sorry to come back to the U.K.. I'm more interested in why this process of digitalization is happening rather than Coloplast's ability to get that process in order. Just if you could share some thoughts. Is this an indication that volumes are being more closely monitored, or indeed there could be some change to the overall dispensing fee? Just some thoughts along that would be helpful.

And also--

Lars Rasmussen: Let's take that first. Let's take them one by one.

So the reason why this is happening is I think it's just a matter of getting a better handle on what is going on. Formerly, in the good old days, we could get a call from a patient who said that they had a prescription now and could we please send the products to them. And nobody wants to have ostomy products or catheters unless they have the need, so there was very little risk on that. And we just kept it, the (prescription data).

U.K., like everybody else in the world, are tightening up on this, and they would like to make sure that we have the prescription with us before we send anything to patients. That process, if we are not digitalizing it, actually

becomes very cumbersome, and it becomes too -- it takes too long time. So I think it's just a matter of making sure that you are keeping a proper flow of your documentation and your payments in the system.

Scott Bardo: Understood. So that won't affect your inventory at all, or --?

Lars Rasmussen: No. I don't think so.

Scott Bardo: OK. Thank you. And second question, also in the U.K., or you can extend it to in the broader market if you like, but have you seen any change in the dynamic for the accessory lines? It's done phenomenally well with accessories in the U.K., and now that the U.K. has slowed a bit, I wonder if that's a disproportionate impact of any particular product type.

Lars Rasmussen: Well, we have seen a slowdown on the accessory line towards -- primarily in the US, but also in the U.K.. In the U.K., we don't -- for the time being, we don't have the resources to run campaigns on this because we are fully occupied using the (inaudible).

For the US, there has been more campaign activity, and to a certain extent, (there will be another) full-fledged direct-to-consumer company still. And what we see is that we are using the capacity in our direct-to-consumer setup to launch (essentially) new products. And we can run campaigns at the same point in time. We're not that elaborate yet.

Scott Bardo: Thanks, Lars. That leads me on to my final question, actually. So you're investing very heavily for feet on the ground and also to push your consumer strategy, so it seems strange to me that your campaigning has slowed down actually for those lines. I just wonder -- I would have thought the complete opposite would have been the case and I just wonder if you can help me. I know you mentioned about stocking patterns, but to understand why campaigning has slowed down, and that's not a reflection that we see in your growth today.

Lars Rasmussen: Yes. We do see that we have got a bigger market share in accessories. There's no doubt about that. But what -- just to elaborate a little bit more, certainly in the US, when we are running at times a consumer campaign on Sensura Mio

that we are launching, then we don't at the same point in time run accessory campaigns.

If we were a more mature company, we could definitely do that, but this is a new skill to us, in a sense. We are three years into the investment, so right now, we are occupied with running campaigns on a new product, Sensura Mio, and then we don't have capacity to at the same point in time run a lot of campaigns on accessories.

Scott Bardo: I see.

Lars Rasmussen: And if you go one step further out and you look at the distributors with whom we very often (are having) campaigns, then you also see there that due to the Department of Justice subpoena which has hit the whole industry, everybody are a little bit cautious with what to do because it's not completely clear what this is about.

Scott Bardo: OK. Thanks very much. Very last and quick financial question, if I may; and again, for Anders, please. Could you please give us a sensitivity for the oil price? I know (there's been one) a long time ago, but aluminum and plastic resin is also very important for the Group. So just to give us some sense of that, even though you've encapsulated that in your guidance.

And the hedging losses, do we just simply assume that into next year they just drop off? You've not hedged into next year, or could that even be a benefit?

Thank you.

Anders Lonning-Skovgaard: So first, the question around oil prices. We're not directly impacted by the decline in the oil prices, but there is a small positive impact in our gross margin. And as I said earlier, it is reflected in our EBIT guidance.

In terms of our financial items, we are hedging our cash flow approximately 11 months, so we are rolling this constantly. So that's the way we're doing it.

Lars Rasmussen: And I can add a little bit more to the oil price question because Anders has not been having that question so many times over the years as (Ian) and I have

had. But it's -- during the years where the oil price was climbing up, we also gave a guidance on how much we will be affected. But the fact is that because most of the products that we are losing are actually very refined compared to the raw oil price, when we didn't see a big tick-up in our prices on raw materials in the years where the prices on oil went up, and we have the same kind of lagging effect now that the prices are going down. So don't expect a large impact from the oil price on our gross margin or on our EBIT.

Scott Bardo: Thank you. Very helpful.

Operator: Thank you. Your next question comes from the line of David Adlington of JPMorgan. Your line is now opened..

David Adlington: A couple of questions, please, just following up on what's already been asked. Just with respect to when you gave guidance initially, obviously, things deteriorated. It must have been fairly quickly because you gave guidance right at the end of October. And presumably, December is quite quiet in terms of sales. I just wondered what really surprised you so quickly in that November period.

And secondly, just with respect to hedging, you're obviously getting a benefit on the top line which looks like somewhere between DKK125 million and DKK250 million, but it seems like you're getting pretty much all that offset by the hedging. So I just wondered if anything had gone wrong with the hedging strategy at all.

Anders Lonning-Skovgaard: So I can take -- start with the first one, what surprised us. As I explained earlier in the call, the Charter Healthcare business is very different to the rest of our businesses because the rest of the businesses stayed in a sense quite slow moving. The Charter Healthcare business is a direct-to-patient channel so it's more like a retail shop in a sense that can process payments if you want. If you are -- in a retail shop if your MasterCard machine doesn't work, your sales drops off very fast.

It's the same kind of logic that you see here that once you get longer lead times, everybody starts calling you at the same point in time and your sales

level actually drops and, therefore, people just buy your products in a different shop.

That's the thing that we saw and it came very quickly. And it's not a big flaw that we have, but it's big enough that we need to fix it and to make sure that it doesn't happen again.

But that's basically it. So we could see that we were missing out on the sales in that respect, and since we can't just (inaudible) the contract, we had to reflect that in our guidance, and that is what we have done.

Then of course that would have not been enough to make us change the guidance from 9 percent to (59 percent). The fact that also Russia is in a worse state than what we saw, that's what we believe, that's the second point; and the thing is that when you work in emerging markets, you very often need to get to the end of the quarter until you can see the full effect because they have a tendency to (spread up) at the end of the month and the end of the quarters.

David Adlington: Great. Thank you. And on the hedging?

Anders Lonning-Skovgaard: And in terms of the hedging, due to -- we have increased our guidance in DKK to a level of 12 percent to 13 percent, so we will have a higher revenue. But we will then have, due to the hedging of the dollar and the sterling, have a loss on our financial items this year.

David Adlington: Yes, I understand. But it just means that the increase in your hedging losses is more than the gains you're getting on your revenues, so it doesn't seem like a very effective hedge.

Anders Lonning-Skovgaard: That's not completely what I see.

David Adlington: OK. Maybe we can take it off line later?

Lars Rasmussen: Yes. I think we'll do that.

All right. The last question needs to be -- or the next question needs to be the last question also.

Operator: Thank you. Your next question comes from the line of Niels Leth of Carnegie. Your line is now opened..

Niels Leth: A couple of housekeeping questions. The first one would be on your sale of the Japanese home care business. From which date should we calculate the deconsolidation of this business? And what has been the sale price that will impact your cash flow in the coming quarter?

And secondly, also on your cash flow, how much impact should we expect from payments to U.S. plaintiffs in the next few quarters? I expect that the net impact would turn negative now that you have received all your insurance payments.

Thank you.

Anders Lonning-Skovgaard: Yes. The last one in terms of the cash flow, it's difficult to say, but the estimate to settle more cases throughout the year, and that will impacting our cash flow.

And in terms of the (Wellcome) report, we are closing end of February. It's actually February 27. So this is something we will update you further on in the next (coming) release.

Niels Leth: And on the sale price of Wellcome?

Anders Lonning-Skovgaard: We're not disclosing that.

Niels Leth: OK. Thank you.

Lars Rasmussen: All right. Thank you very much, everybody, for listening in, and we'll see a lot of you in the next weeks. Bye now.

Operator: That does conclude our conference for today. Thank you for participating. You may all disconnect.

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