

COLOPLAST

Moderator: Lars Rasmussen

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13:00 GMT

Operator: Thank you for standing by, and welcome to the Q3 2013/2014 financial statement conference call. At this time all participants are in a listen-only mode. There will be a presentation followed by a question and answer session, at which time if you wish to ask a question, you'll need to press star one on your telephone keypad.

I must advise you the conference is being recorded today, Wednesday, August 13, 2014. I would now like to hand over to your first speaker today, Lars Rasmussen, CEO. Please go ahead, sir.

Lars Rasmussen: Thank you very much. Good afternoon and welcome to this Q3 2013/2014 conference call. I'm Lars Rasmussen, CEO of Coloplast, and I'm joined by our new CFO, Anders Lonning-Skovgaard, and our investor relations team.

Anders and I will start with start with a short presentation and then we will open for questions. Please turn to slide number 3.

We have, yet again, delivered a set of solid numbers and I am very satisfied with the performance we today report to the market. We delivered a solid organic growth of 9 percent; our EBIT increased 13 percent; and our EBIT margin before special items came in at 33 percent.

One key event in Q3 was the expansion of the executive management team from two to four members. Anders was appointed CFO with responsibility for corporate finance and corporate IT. Kristian Villumsen was appointed

Executive Vice President, Chronic Care, with responsibility for global marketing, R&D and sales regions within ostomy and continence care.

Finally, Allan Rasmussen was appointed Executive Vice President, Global Operations, with the responsibility of global operations, procurement and quality and environment. The expansion of the executive management team aligns with our growth strategy and our long-term financial guidance. I'm particularly satisfied with the fact that we could recruit for these positions internally.

Another key event during the quarter was the execution of our Capital Markets Day in June and the subsequent release of the new long-term financial guidance.

We now aim for 7 percent (to 10 percent) of annual organic sales growth and a continuation of the annual 50 to 100 basis point operating margin improvements. Those of you that missed out on the day can find presentations and Webcasts on our Web site.

For 2013/2014, we continue to expect an organic revenue growth of around 9 percent, and we expect an EBIT margin before special items of 33 percent to 34 percent in fixed currencies.

Please turn to slide number 4.

Revenues were up by 9 percent organically, and 6 percent in Danish krone, and amounted to around DKK9.2 billion.

In ostomy care, organic growth was 8 percent and growth in Danish krone was 4 percent. The growth continues to be driven by a solid performance of our SenSura portfolio in Europe and in the U.S., as well as a strong uptick in the market for Brava accessories. In addition, we also continue to see a strong sales performance of Assura in markets like China and Brazil.

Organic growth in Q3 was 6 percent and was driven by continued good U.S. and emerging markets performance, whereas the quarter saw the effect of low growth rates in markets like U.K., France and Holland.

Our new generation of ostomy products under the brand name SenSura Mio has now been marketed for six months. The product has been launched in 12 markets in Europe and North America and feedback is great.

In continence care, organic growth was 11 percent and growth in Danish krone was 9 percent. In Q3, organic growth was 10 percent for continence care. Our very satisfactory growth was driven primarily by the SpeediCath product range, especially our compact range of products, as well as our bowel management system, Peristeen.

On top of our successful efforts to upgrade the U.S. market through high-end catheters, we also continue to see good performance in our SelfCath sales.

Our collecting device business continues its satisfying performance in Europe and in emerging markets. Especially Q3 was satisfying, partly due to a successful TV campaign in France.

In urology care, organic growth was 10 percent, and growth in Danish krone was 6 percent. In Q3 in isolation, organic growth was 9 percent. Sales of our Titan range of inflatable penile implant devices continued to drive a strong performance. This was also the case within pelvic health, where our single incision mini sling, Altis, maintained its strong performance.

Finally, our endurology business continues its strong performance, adding to the solid 10 percent organic growth year to date.

In wound and skin care, organic growth was 10 percent, and growth in Danish krone was 7 percent. Organic growth for wound care in isolation was 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 European markets.

Underlying wound care performance remained strong, despite low growth rates in China and Greece during Q3. Our skin care business saw a moderate

growth in Q3, as the contract manufacturing business saw good growth in the quarter.

Turning to our geographical segments, we saw organic growth of 6 percent for the nine months of 2013/2014 in our European markets. Growth was driven primarily by the U.K., Germany and the Nordic region. Southern Europe continues its good performance on the back of good comparisons last year and, as expected, the trend for growth in Europe is normalizing, compared to the strong start of the year.

U.K. growth momentum continued to slide a bit, and we can feel the impact from healthcare reforms in France and Holland.

Organic revenue growth in other developed markets was 10 percent year to date, 2013/2014. We continue to see satisfying performance across all business areas.

We see continued strong growth in ostomy care and we continue successfully our conversion efforts towards compact catheters in the U.S. market.

Our urology business continues its above market growth, whereas our wound care business is facing tougher comparisons which reduced the growth rate. In Q3, especially Japan was impacted by stock building last year due to price increases.

Finally, revenue in emerging markets grew organically by 24 percent year to date, 2013/2014. Markets like China, Brazil and also Argentina continued to deliver very satisfactory performance.

Last year's inventory buildup within our – sorry, last quarter's inventory buildup within our new distributor in Algeria also impacted growth positively.

Finally, Russia has started to deliver good growth as a consequence of higher tender activity.

Looking at Q3 in isolation, growth was slightly lower, due to distributor change in Taiwan, and we also had a slightly lower quarter in China.

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

Anders Lonning-Skovgaard: Thank you, Lars, and good afternoon everybody. My name is Anders Lonning-Skovgaard, and I'm the new CFO of Coloplast. Before we move to the numbers, I would like to take the opportunity to introduce myself.

I am 41 years old; I am married to Cecilia who, among other things, is a politician in the municipality of Copenhagen. We have two kids. My educational background is a Master of Science in Finance & Accounting, and I started my career at Carlsberg in 1999 where I had various financial positions.

I moved to Coloplast in 2006 where I started as finance director for our ostomy care division, and then I moved into a role where I created a financial performance management unit with focus on sales and marketing.

Since 2010, I have been responsible for our global IT function, where my focus has been to reduce costs and make our IT organization more business oriented. I look forward to work with you, and seeing you over the next quarters.

So that's a bit about me, I will now move into the numbers.

Overall, Q3 was another good quarter in which we saw a continued strong development in our business. Gross profit was up by 8 percent to DKK6.3 billion. This equals a gross margin of 68.4 percent, an improvement of 1 percentage point compared with the first nine months of last year.

The improvement continued to be driven by higher production efficiency. Currency had a small adverse impact on the gross margin. The distribution-to-sales ratio came in at 28.5 percent, and that's on par with last year.

So far this year, we have invested a little bit more than DKK150 million in incremental sales-enhancing initiatives in emerging markets, China and the U.S..

The admin-to-sales ratio came in 0.7 percentage points lower than in the same period last year. This reduction was driven by improved scale effects from the top-line growth, generally improved efficiency, and fewer projects.

In Q2, we had reversed a provision of DKK20 million related to bad debt in Spain as we already this year received DKK45 million from the Spanish authorities.

So all in all, this results in an EBIT margin before special items of 33.1 percent, compared to 31.1 percent in the same period last year. Currency impact on the EBIT margin was minor.

Our free cash flow remains strong, and we continued to return excess cash to our shareholders. In the first nine months of this fiscal year, we have returned nearly DKK1.3 billion. The second half of our share buyback program will continue in 2015.

Please turn to slide 6.

For 2013/2014, we continue to expect revenues to grow around 9 percent organically, and 7 percent in Danish krone. The currency impact is based on spot rates as of August 5, and the negative impact is mainly a result of the depreciation of the U.S. dollar, the Japanese yen, the Argentinean peso against the Danish krone.

For 2013/2014, we continue to expect an EBIT margin before special items of 33 percent to 34 percent in fixed currencies, and 33 percent in Danish krone.

When we include the DKK1 billion provision, the EBIT margin is expected to come in at 25 percent to 26 percent in fixed currencies.

The guidance includes investments in sales-enhancing initiatives which are still expected to be in the range of DKK200 million to DKK250 million.

Our CapEx guidance for 2013/2014 remains around DKK500 million, and includes investments in capacity for our new products like SenSura Mio,

Biatain Silicone, and also investments in the planned expansion of our Nyirbator site.

Our effective tax rate is expected to be around 25 percent.

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

Operator: Thank you very much. We will now begin the question and answer session. If you wish to ask a question, please press star one on your telephone keypad and wait for your name to be announced. If you wish to cancel your request, please press the hash key.

Your first question comes from the line of Alex Kleban from Barclays. Please go ahead.

Alex Kleban: Yes, thanks for taking the questions. So just three from me. First is if you can quantify the impact of the Russian tenders for the quarter on the emerging market growth rate?

Lars Rasmussen: You take them one by one?

Alex Kleban: I'll do them one by one yes, sorry about the ...

Lars Rasmussen: No, we cannot quantify but what I can say about the situation in Russia is more or less the same as we had the other quarters. There's a big swing – if you have short-term look at it, you have very, very big swings from actually one year to another, also from quarter to quarter. But when you look at it over a number of years, we see that we have an increasing trend in Russia.

Of course, we are very anxious to see what the current situation will then mean, but so far, we see an OK tender activity in Russia, but I can't quantify it for you.

Alex Kleban: OK, no, that's fine. The second question is whereas just now you have I guess a couple of weeks of not running the chronic care business day to day, I suppose that's giving a bit more breathing room. And just wondering what

you're doing with that I wouldn't call free time, but I guess that excess capacity, and how that's going to – where are you going to focus your energy, let's say, going forward in the next six months to a year?

Lars Rasmussen: Yes, I think that's a very good question actually because the situation over the last couple of years have been that it's been hard for me to do anything else than looking after the chronic business.

So this gives me a chance to, of course, still follow up and push the chronic business, but I also have a bit more time now to look into the wound care business, and our urology business. And the fact is that, over the last two years we have invested quite significantly in a number of sales initiatives, which I would like to follow up on much more closely, because all in all, we have almost committed the DKK1 billion that we set out to do, and that's a lot of new activities that we are embarking on.

To top it off, we are, right now, launching the biggest, or the first part of the biggest ostomy new product program that we have ever had. And I think there's so many moving parts in that that it is great to have the chance to take a deeper dive in some of those.

So that is what I want to do. I can also say what I don't want to do: I'm not going to spend more time on external (parts), and stuff like that.

Alex Kleban: OK, that's interesting. And the last question, just on wound care, and we've seen another quarter of, I guess, sub-par results from one of your main competitors there. And just wondering if you've seen any increased activity, given that you have been taking market share over the past few quarters, any increased activity from your competitors. Or if you expect a very strong response from them, in terms of investment in marketing programs, sales force, et cetera, in the next couple of quarters?

Lars Rasmussen: I think that, on the wound care side, as we also said when we had negative growth, this is one of the more dynamic business areas that we are in. I think that we all trying to be as sharp as we can in that area. So we see the same activity level as we have seen over the last few years.

I just think that we have managed to set a team which is strong, and we have been very fortunate with the timing and the launch, and the quality of the silicone product that we brought to the market. that is the prime driver of the growth that we have.

Very shortly, we will have the capacity to meet the demand that we see in the market, as I said last time, and also the quarter before, then we are actually in a situation where we cannot fulfill the demands for these products. But now we have two new machines that are ready to start producing from October 1, so I'm looking very much forward to that.

Alex Kleban: OK, that's it from me. Thank you very much.

Operator: Your next question comes from the line of Ian Douglas-Pennant from UBS. Please go ahead.

Ian Douglas-Pennant: On the ostomy business, maybe you could just talk a little bit about the U.K.? You highlighted this as a source of weakness again; maybe you could just give us a little bit more color there?

And I was reading, I think, on one of your regional Web sites, that you are investing pretty heavily in the U.K. in chronic care. Maybe you could talk about that, and whether that has implications for the operating leverage you think you can achieve in this business, going forward?

And then just a quick one. In wound care, there's been some headlines on one of the major news services, just some comments I think you made in a press interview, about wanting to invest in wound care. I just want to double-check that's intended to be in line with your previous statements on this area?
Thanks.

Lars Rasmussen: I think that, first and foremost, our ostomy performance this quarter is impacted by the reduced prices in France, and also a little less pressure on the SenSura sales in the U.S., where we last year were running a very hefty campaign, launching some of the product categories into the market. So it's maybe a bit normalized this time.

And then we had, I would say, it's maybe more quarterly swings that you see in the U.K., and actually expect them to have a strong finishing of the year. But having said that, it's correct that we are investing in the U.K., and what we are investing in there is primarily in salespeople.

We are market leaders in the U.K., when you look at bags and plates, but we are only starting to build our position inside of accessories. And with the big launch that we do now of SenSura Mio, we think that we have a great opportunity to take market shares faster in the U.K..

That's why we're investing in salespeople in the U.K. over the coming couple of years, and that's a quite significant investment, so we'll have a very strong coverage in the U.K..

When it comes to wound care and the comments about this, it's like you are asking about M&A ...

Ian Douglas-Pennant: Sorry, just to be clear. You've obviously made some statements that you would be happy to invest in wound care in the past. I just wanted to double-check that ...

Lars Rasmussen: Let me say, there's nothing new. I think that we have proven, not least to ourselves, that we need to run a wound care business. We know that if we can add scale to our business we'll be much more profitable than we are today. So we look at the opportunities that may come up if that happens in the future, but nothing new.

Ian Douglas-Pennant: Great, thanks. And then just one quick one, I hope, if I can. On negative pressure wound therapy, obviously an opportunity for you. Your listed competitor made a comment the other day that pricing pressure and negative pressure was increasing perhaps more than they were expecting. Is that something that you're seeing? And if so, are you driving that, or another new competitors in this space? Or do you believe that it's being driven by...?

Lars Rasmussen: ... In a sense, I would like us to be big enough to take credit for such a comment. But we have primarily been concentrating on emerging markets, on

Brazil and China, and so, in that sense, I don't think that we are the ones who are putting pressure on the prices.

But having said that, the system comes with – it's more simple, and it comes with a different cost level than many of the other systems in the market. But we are not really present in the European markets today.

Ian Douglas-Pennant: But you still feel that the prices that you can achieve are attractive to make this an interesting opportunity for you?

Lars Rasmussen: Yes.

Ian Douglas-Pennant: OK, perfect. Thanks very much for your time.

Operator: Your next question comes from the line of Martin Parkhoi from Danske Bank. Please go ahead.

Martin Parkhoi: I've got two questions. Firstly, again back to the ostomy care franchise, the significant launch activities you, of course, have in the quarter on SenSura Mio, have that created some kind of overall disturbance for the ostomy care business? Of course, if you remove the foot from the pedal a bit on the older products, so have we seen a short-term negative impact from this major launch?

And then just on the gross margin, of course, if we adjust for currencies, there was a gross-margin improvement year on year. But if you look compared to last quarter, we actually have a lower gross margin, despite the (fact) of higher sales. So are there anything extraordinary in the gross margin?

Lars Rasmussen: I think actually the questions that you're raising are, in a sense, interlinked, because it's hard to say if the launch activities have made any disturbances. There's no doubt that we have given away a lot of samples in this period and, of course, that would then be products – some of them would be products that we are not selling.

But apart from that, it is actually positive that you're launching, and it gives your sales team an opportunity to visit customers again, with more energy,

and so on. So I cannot say that the launch activities have made anything negative, apart from the fact that we have given away more things for free while we try to kick this off.

But I also think that it's a bit interlinked to the gross margin, and maybe you would like to comment on that, Anders?

Anders Lonning-Skovgaard: Yes, I can do that, Lars. In terms of the gross margin, we started to really produce more Mio during this quarter, so we have started to ramp up. That's one of the explanations for a lower gross margin this quarter compared to the previous quarter. And then there's also a small adverse impact from appreciation of the (Group). So those are the main explanations.

Martin Parkhoi: OK. And will that be gone in the fourth quarter? Should we also expect to see the gross margin a bit under pressure for these factors?

Anders Lonning-Skovgaard: That is not our expectation.

Lars Rasmussen: But we expect our gross margins to go up, as Anders is saying, over time. But launching such a big thing as Mio, of course we feel it when we are pushing things into the market, and when we're building stock, and so on. And in a sense, it's positive that we see such a demand for it, so we can't read too much about it.

Martin Parkhoi: Sure. Thanks.

Operator: Your next question comes from the line of Martin Bruninger from Jefferies. Please go ahead.

Martin Bruninger: I've three questions. On wound care, after you've managed to turn this business around in the last three years, what are your next initiatives? And what is the margin potential ahead of us from this division?

And secondly, on the long-term margin guidance, could you list the businesses, perhaps according to contribution significance, and give us some color on those?

And thirdly, on the healthcare reforms, what quarter was the first fully impacted by the price cuts in France? And from what geographies do you see next price cuts coming your way that would impact the Group in similar significance?

Lars Rasmussen: Could you say the last one again? I didn't ...

Martin Brunninger: Yes. On the healthcare reforms, just wanted to know what was the first quarter where you see the full impact of the France price cuts? And from what geographies do you see the next price cuts coming your way that would impact the Group in a similar way, similar significance?

Lars Rasmussen: In wound care, the next step, you could say, I actually think that we have – you already know a couple of years ahead what will be the main activities. That will be to continue the launch of Biatain silicone, where we have only been able to launch it in a limited number of countries, because we have had limited capacity.

That was what I mentioned before, that we get significantly more capacity now, which means that we can launch in more countries, and we can also launch more sizes and shapes. So that's a very big activity for us. And then negative pressure wound therapy, to create a position in that market is a very big undertaking. So those are the most important activities that we have.

And the margin potential, that depends on the size, I would say, but you can find wound care companies that have more or less the same kind of margins as we have in the Coloplast business today. But of course, it takes a very different size than what we have today.

The gross margin expansion from the different businesses; I think, the two main contributors to gross margin expansion. One is gross margin improvement from our global operations. They have expanded the gross margin activities in the – global operations have expanded the gross margin quite significantly over the last few years, but there is still something to go for.

The second one would be ostomy and continence care in Europe. And then within the next couple of years, it starts to become fully invested in the U.S. also and that means that U.S., which actually enjoys quite a good growth, will also start to contribute very significantly to the leverage effect in the Company.

So those would be where we get the levers from to expand our margin by 50 to 100 basis points while we're still investing to grow the business.

Martin Brunniger: And healthcare reforms and the price cuts in France?

Lars Rasmussen: Yes, I think that it was a quite significant healthcare reform in France and we don't have any other healthcare reform on the horizon with a similar impact. And the price reform started to take effect from September 2013.

Martin Brunniger: Thanks very much.

Operator: Your next question comes from the line of Veronika Dubajova from Goldman Sachs. Please go ahead.

Veronika Dubajova: I have three questions. Lars, one, I was hoping you could comment on the competitive environment in the ostomy market. One of your competitors seems to be preparing for a change in ownership, and I'm just wondering if you're starting to see that from how they're competing, and what you're seeing from them in the market.

The second question is to Anders. Just wondering, your predecessor stated that the goal for the Company was to have an unleveraged balance sheet. I'm just wondering if you have different thoughts on how to make the balance sheet efficient, or if you're going to stick with the targets that were communicated at the Capital Markets Day.

And the last one, hopefully a very quick one. If you have any guidance for us for the net financials for the full year, that would be very helpful. Thank you.

Lars Rasmussen: Yes, let me start with the competitive pressure in ostomy. I think what we have seen over the last few years is it's a kind of very stable competitive

situation. We have seen that Hollister, they keep the pressure up, if we could say it like that. We have seen, maybe a little bit, a difference in (ConvaTec). It's been like in peers that have spent more time on wound care, and that's something we have looked at because it is one of the business areas where you can increase fast on the top line.

And then it has been an on and off competitive situation in ostomy care where there have had some years where they have been increasing prices quite aggressively and have lost some market shares on that, and other years where they've been more cautious.

So in that sense, I don't think that we have seen any major changes. We also know, of course, that there is this wish to have a change of ownership. But we haven't seen much, I have to say.

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

Lars Rasmussen: Your question about the debt on the balance sheet. What was your question really?

Veronika Dubajova: It was just a question around will you maintain the target of having DKK1 billion net cash or might you –?

Lars Rasmussen: No, that's gone. We have a stated goal that we are paying out the free cash flow, and we started with interim dividends last year, as you know so that's gone.

Veronika Dubajova: No, well, but I think what Lene said at the Capital Markets Day was that there was no intention to leverage the balance sheet unless there was an acquisition.

Lars Rasmussen: That's correct.

Veronika Dubajova: And I just was wondering if there is a change to that.

Lars Rasmussen: No, and if we have an acquisition, that's, of course, perfectly fine with us to get some debt on the balance sheet. But we're not going to leverage it unless there is an acquisition.

Veronika Dubajova: OK. I was just confirming that there was no change to that, given that you have a new CFO in house so ...

Anders Lonning-Skovgaard: No.

Lars Rasmussen: That was a clear no from Anders.

Veronika Dubajova: Terrific, thank you. And Anders, any guidance on the financials for the full year?

Anders Lonning-Skovgaard: We are guiding around DKK20 million for that part.

Veronika Dubajova: Terrific, thank you very much. I'll jump back into the queue.

Operator: Your next question comes from the line of Michael Jungling from Morgan Stanley. Please go ahead.

Michael Jungling: I have three questions. Firstly, on European growth, if I adjust your growth rates for comps, we have seen a slowdown from Q1 all the way down to Q3, and I'm wondering why we're seeing this comp adjusted deceleration. Is this more of a temporary development, or is it more of a structural change? Some sort of insights on that would be useful.

Secondly, coming back to ostomy, normally when you launch new products you should see an acceleration in growth. Can I confirm that the net impact from launching Mio did contribute to growth in the third quarter?

And then I have a question on working capital. Can you comment on why we've seen some large changes in trade and other receivables and also payables? It's in your notes, some fairly large changes. Thank you.

Lars Rasmussen: Let me start off with the sales stuff. In Europe, actually the fact that we had an unusually high Q1 means that when you – it depends how you look at it, but if you take it from Q1 and until now, you will see that Europe is going down in momentum. But it was simply unusually high, what we saw in Q1.

Are we expecting to see Europe continue to go down? No, of course not. Europe will also enjoy growth from the fact that we are launching both new Mio and also the new SpeediCath (leaf) and, by the way, we also see a better performance now in both surgical royalty and the wound care globally so that will also impact Europe. So it's not a trend; it is an effect of an enormous abnormality, I would say.

When it comes to ostomy care, the moment we launch a new product, then that is what we push into the hospitals. And then you immediately see that the part that they used before as the growth driver in hospitals, that will be withdrawn.

So you will very soon see a stabilization where people already using the old product, they keep using that. But where the growth in the business comes from the new product and that's also the case with Mio. It's already a good part of the growth that we see in ostomy care.

But we, of course, expect that, over time, the ostomy growth will pick up as a consequence of the launch of the new Mio because it's – mind you, we have only launched the first half of a very big program. We are going to be increasingly competitive within the ostomy field as we're launching the rest of that portfolio over the coming years.

Michael Jungling: Before we go on to the financial, is it fair to assume then that in the fourth quarter we'll start to see an improvement in ostomy growth?

Lars Rasmussen: I would be quite hesitant to start guiding you on growth per business area per quarter. So what I try to put into my answer is that we feel extremely confident with the situation that we have in ostomy, with the growth rates that we have in ostomy and, if anything, we think that our underlying momentum in the ostomy business will be going up over the coming quarters, due to the massive investment in new salespeople and due to the launch of new Mio.

Michael Jungling: Great, thank you. And then on the financial question, please?

Anders Lonning-Skovgaard: Yes, in terms of our net working capital, it has slightly increased to 24 percent, and it's primarily driven by buildup of SenSura Mio for the launches we are going to do in the autumn and into 2015.

On top of that, we're also settling the cases related to the provision, and that will gradually turn into payables that will be paid to the plaintiffs. So that's what you can start to see in our financials.

Michael Jungling: So when other receivables goes from minus DKK70 million to minus DKK380 million, what would that be? And then trade and other payables goes from DKK22 million to DKK470 million.

Anders Lonning-Skovgaard: That is in relation to when we are settling cases in relation to the mesh situation that they are going into payables from receivables, over time.

Michael Jungling: OK. Thank you.

Operator: Your next question comes from the line of Yi-Dan Wang from Deutsche Bank Research. Please go ahead.

Yi-Dan Wang: I have a couple of follow-ups and a question or two. On the follow-ups, on the gross margin, it sounded like your gross margin will contract further before it goes back up again. Can you just give us a sense on the timing of that and when could we see your gross margin trough and then pick up? And to what extent will that contraction be offset by the operating leverage you have in the business.

And then the second question is on the urology business; now that you're settling the mesh cases, can you comment on your willingness to invest in that division?

And then thirdly, can you comment on Mio's impact on the U.S. market? And more specifically, on your position in the GPOs? Thank you.

Lars Rasmussen: Anders, could you comment on the gross margin because I think I'm not able to express myself clearly, because I don't think that I said that we're going to have a further contraction, but maybe you'll comment on that?

Anders Lonning-Skovgaard: But as we said, we have year to date an improvement in our gross margin of 1 percentage point, compared to last year. That is driven by production efficiencies, and we will continue to see that development, over time.

Lars Rasmussen: So we don't expect, or planning for, a further contraction, as you said, as of the gross margin due to the launch of Mio. What we plan is to continue to improve on our gross margin, and that is also – the whole planning that we have in the Company does also include an increase in gross margin, over time.

Yi-Dan Wang: OK. So maybe I'll clarify on that. So the impact that we've seen in your gross margin from the launch of Mio, is that all we're going to see? Has that maxed out or is there a bit more incrementally?

Lars Rasmussen: That's a good question, but what we have done right now is that we have built up stocks and shares, the launch or prepared for the launch in 12 countries over the last 6 months and that's, of course, a big thing which is impacting us right now.

Yi-Dan Wang: So you're all set for the launch, so we shouldn't see incrementally any more impact on gross margin from the Mio launch?

Lars Rasmussen: If you're in for a quarterly guidance, it's, of course, very hard for me to give you that specifically, but we expect our gross margin to grow year over year.

Yi-Dan Wang: OK. Thank you.

Lars Rasmussen: With the urology business, your question was about our willingness to invest further in that business, and I would like to reiterate what I said last quarter.

We are very cautious with our investments in that particular business. We are investing what it takes to make it grow, and we are expanding both our top-line growth and also our EBIT margin in that business, and have done that over the last years, and we continue to do that also next year.

But we are very cautious with investments, and we need to finalize the litigations and then take stock of the situation before we're willing to do any investments that are over and above what we already do.

And then your question to the Mio impact, what was that then?

Yi-Dan Wang: Can you comment on or, effectively, the significance of being able to launch Mio in the U.S. market and how that would impact your positioning with the GPOs and, therefore, the growth rate in the U.S. or your share in the U.S.?

Lars Rasmussen: Yes, we have just launched it in the U.S., so as of now, there is no change. But, of course, as we get more and more scale in the U.S., as we have better and better products and more and more diversified products, I think that our position becomes better.

What I would like to answer to you that we have changed the situation as of now what we haven't. But all the steps that we are taking are steps that are moving us in the right direction and position us in a better way than we have been before.

Yi-Dan Wang: OK. So from memory, the Novation innovation contract that you guys got is supposed to open up the U.S. market for you quite significantly, assuming that once you have the new products in. So previously, you only had a partial Mio product in the range in the U.S. market and with the additional Mio that you're launching, can you give us some sense of what portion of the Novation contract you can now access? Not right now, but say in three, six, one or two years down the line?

Lars Rasmussen: I think it becomes a bit too detailed for me to – I can't answer that right now at least.

Yi-Dan Wang: But you do expect, as you launch additional Mio, that the percentage in the market you can access will increase quite significantly?

Lars Rasmussen: Yes, I think that's a fair assumption. The way that we handle it today, as you know is that we sell what is possible to the GPOs – or most of the GPOs

where we are not on contract, we sell what is possible in separate contracts and, therefore, it is both time consuming and quite cumbersome for us.

But nevertheless, we are growing quite significantly in the U.S., but as we get more and more scale, that's, of course, not the way to go about it. We need to be better represented in the GPOs when it comes to ostomy.

Yi-Dan Wang: OK. Thank you.

Operator: Your next question comes from the line of David Adlington from JPMorgan. Please go ahead.

David Adlington: Sorry, yes my questions have been asked, thank you.

Operator: Your next question comes from the line of Scott Bardo from Berenberg. Please go ahead.

Scott Bardo: Welcome, Anders. It seems to me that there's very little, from the Company's perspective, in today's update that you didn't outline in your very detailed strategy and financial update only a few months ago.

One thing that does appear to have changed a little bit is some moves in the supply chain. So, Lars, I'd just be very interested to hear your thoughts about Nordic Capital's move, GHD, the largest ostomy healthcare company in Germany, and whether you think there's any ramifications for your business both positive or negative. That would be great to hear your thoughts.

Second question also on the U.K. market. Obviously, that's been a great source of growth for you guys and you continue to invest for the longer-term growth in that market.

Lars Rasmussen: Sorry, which market was that?

Scott Bardo: Sorry, the U.K. market.

Lars Rasmussen: U.K. market, OK.

Scott Bardo: Yes. So I don't want to over interpret, just a comment that you put into the release here, but you mentioned it was a little bit softer. Is that anything you think specific to the competitive dynamics; is the market getting a little bit tougher? Is that just a bit of washout from a nice developing growth you've had from accessories, or anything really to raise any potential indication of a change in the environment in the U.K.? Or is it just simply one quarter's a little bit softer?

And the last question just on France, please. We've obviously seen some modest price contractions in France which I think you've absorbed relatively well. Just in your release there, you just mention that there's still an outgoing review for ostomy and continence care which you expect to occur next year. I just wonder whether there's been any further insight as to the nature of that sort of pricing review, whether that would be broadly in line with what we've seen today. Thank you.

Lars Rasmussen: When it comes to the German homecare situation, and (now) the capital acquisition of GHD, I think that leaves the situation unchanged at least, seen from our side. We do not have much business with GHD, and I don't believe that it's going to be significantly bigger now that (ConvaTec happened).

I do know that – or it's my impression that ConvaTec do not have a big business with GHD, as of today, at least. And that means that GHD must have other sources for their ostomy business than us, and ConvaTec. And now that it is Nordic Capital that have acquired them, it might be that some of the bigger suppliers that they have, they will feel it now. But it's, at least, not something we expect will be a very visible source.

We think that we have market share within GHD which is the market – or we have sales to them which is sales that is hard for them to avoid, if I may be so blunt.

With the U.K. market, as I said earlier on, we think we can do so much more in the U.K., specifically with the launch that we have just done of new Mio, and also with accessories. And that's why we're investing quite heavily now to get a different position in the U.K..

I'm actually very excited about that. It's one of our biggest investments, and definitely the biggest investment that we do in Europe. I think that's quite exciting, so I have high hopes for that; it is a great market.

And then, on the French healthcare reform, there are no further news on that one, no further costs.

Scott Bardo: OK. Thanks very much. And just a quick follow-up, please, Lars, just on Germany, just for my understanding. Because obviously, historically, the relationship with GHD caused a bit of volatility, and impacted Coloplast growth. And I don't think your share has changed meaningfully since that period, in Germany.

So arguably, you were too big to avoid back then as well, but it still was relatively disruptive when they went with another player. And I just wondered why then, it might be different this time, if they decided to change the alliance of their core suppliers.

Lars Rasmussen: Yes. I think the main reason why we look at it a bit differently this time is that I think that we have a very strong homecare business in Germany. I think we have a good leadership in place. So that's one part of it.

The other part of it is that the German healthcare authorities have been good at taking cost out of the whole value chain in Germany. And if you are to make disruptive moves like we have seen in the past, in today's environment, the payback time may be very long for you. So I'm not certain that it is the same logic that rules back in time still applies.

Scott Bardo: Got it. Thanks very much for answering my questions.

Operator: Thank you. As a final reminder that was star one for any further questions.

And we have a follow-up question from the line of Alex Kleban. Please go ahead.

Alex Kleban: Since we have just a bit more time, I was going to ask about the negative pressure wound pilot going out in Europe, and I think it was Brazil. You

talked about it a bit at the Capital Market Day, but I'm just checking in to see if you have any feedback on that initially, with the Devon product.

Lars Rasmussen: Yes, that's right. It's Brazil and it's also in Switzerland. And I think we said at the Capital Market Day, we have positive feedback. And that now means that – by the way, in Europe, we also have it in Greece via a distributor. that means that there are a few changes that we need to do to the product, in order for it to be what we consider to be fully competitive. And that is what we're doing as we speak. And then we are going to invest to get the position that we think is of (preferred) interest in the negative pressure therapy market.

Alex Kleban: OK. And so would you be thinking, I guess, to give you enough time to make the changes, maybe mid next year, something like that, for a bigger launch?

Lars Rasmussen: I would expect that we start to increase the pressure over the coming months. So I think mid next year is probably a good point in time to revisit.

Alex Kleban: OK. Perfect, thanks.

Operator: Your next question comes from the line of Soren Holm from Nordea. Please go ahead.

Soren Holm Sorensen: I was cut off the call earlier on, so I apologize if the question has been answered at that point. But on the CMD, you were quite positive and bullish about China, and now you're highlighting some softness there in the wound care business, and also in general. Could you maybe elaborate, is that just quarterly fluctuations, or what is going on there? You saw underlying China market moving as you'd expected.

Lars Rasmussen: Actually, that question didn't come up, so thank you for that. It is a short-term negative spike, you could say, and it's all concerned about two regions in China, where we had a visit to our distributors, and we think that they had a bit too much on stock. So we're reducing stocks and, of course, when you do that, you don't sell as much. So we expect that to be back on track actually quite shortly.

Soren Holm Sorensen: All right. Thank you.

Operator: Thank you. We have no further questions at this time.

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

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

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