Coloplast
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Chaired by Lars Rasmussen

Lars Rasmussen

Good evening, everybody, and welcome to this Q3 2010/11 conference call. I'm Lars Rasmussen, CEO of Coloplast, and I'm joined by CFO, Lene Skole, and our IR team. Lene and I will start with a short presentation, and then we open up for questions. Please turn to slide number three.

We realised 6% growth organically and 8% in Danish krone in the first nine months of 2010/11. Growth continues to be driven by strong performance within Ostomy and Continence Care. The organic growth for the quarter was 7%.

We can report an EBIT margin of 24% for the first nine months of 2010/11, and 25% for Q3 in isolation.

I'm pleased with these results, in particular with the growth within our two big business areas, Ostomy and Continence, and with the continued market improvement driven by the completion of our transfer of production and continued efficiency improvement in our volume production.

We continue to expect organic revenue growth around 6%, while growth in Danish krone is now expected to be around 7%.

The guidance for the EBIT margin is unchanged, around 24-25% in both Danish krone and in local currencies.

Please turn to slide number four.

In Danish krone revenues were up by 8% to DKK 7.6 billion, and the organic growth was 6%, in line with our guidance to the market.

Within Ostomy Care we continue to see strong organic sales growth of 7%. The biggest growth driver remains the SenSura product line in the European product markets. Organic growth in Q3 was 8%.

SenSura Mio is now launched in five markets, Holland, Switzerland, Finland, Denmark and the UK. Feedback is great, so our confidence in this product remains high.

We also continue to see strong sales growth in South America, Asia and Russia. The US market is still performing below expectations, but performance improved in Q3, compared with the last quarter. We are happy to see that the new management in the US is off to a good start.

In Urology and Continence Care organic growth was 8% for the first nine months, while organic growth in the third quarter was 9%. Growth continues to be driven by intermittent catheters, especially SpeediCath, in Europe, and Self-Cath in the US. Sales trends in both the US and in Europe have recovered from the last quarter. SpeediCath Compact Male has been launched in 11 countries so far, and sales continue to exceed expectations.

Conveen bags and Urosheath, as well as Peristeen performed well also in this quarter.

The European urology business, Porges, shows very satisfactory performance. Porges is a minor part of our business, but constitutes half of our Urology Care business.

The business has been through a very successful turnaround since 2007/8, and I'm pleased that the business is now contributing to both growth and earnings.

The US based surgical urology business remains negatively impacted by the move towards mini-sling technology. The expected FDA approval of the Altis mini-sling has been postponed, so that we now expect to receive it mid 2012. The reason for this delay is the requirement by the FDA for additional clinical studies.

Sales growth of penal implants was flat this quarter, due to a combination of postponements of procedures and direct cancellations. Given the economic environment in the US, we do not expect immediate pick up in growth from this business.

Our Wound and Skin Care saw a positive growth in Q3, at 3%, which took growth for the first nine months of 2010/11 from negative to flat. The improved growth was driven by all three segments, contract manufacturing, Skin Care and the wound care, and the two latter benefiting from better comparisons in Q3.

Despite the positive development, Wound Care growth was still negative by 1% in Q3.

We are pleased to see signs of an improving trend, but a 1% drop in revenue is not satisfactory, and in the light of the continued adverse market conditions on most European markets, we no longer believe that growth will return in 2011.

Our first priority, as executive management is to create value for shareholders, and we do see that we create value by staying committed to our Wound Care business. We have taken the right measures to turn the business around, and we have improved EBIT margins to the tune of almost 15 percentage points over the last three years, so the business today consistently contributes to total value creation in Coloplast.

We are disappointed that it takes longer than the expected to show sales growth. We do, however, fundamentally see that the Wound Care market is an attractive market, despite the current price pressure. Wound Care is one of the closest adjacencies in to our Ostomy and Continence Care business, and it fits well into our product portfolio of healthcare activities. This means that we remain committed to the business, and to eventually participating in the consultation in the markets.

Looking at sales in Europe, we saw an organic growth of 5%, year to date, with a strong quarter growing 7%. The reason behind the strong quarter was very satisfying sales growth in the Nordic region and in Germany, as well as Greece, compared to the previous quarters. Also UK continued the good performance.

Organic revenue in the Americas improved by 10% year to date, and 9% in the quarter. In the US growth improved compared with the disappointing growth last quarter. South America continued its strong performance. What we saw a large quarterly swing in Argentina on one of the largest tenders in the market.

And finally, revenues in the rest of the world improved by 13%, organically, but only 7% in the quarter. Strong performance remained in China, whereas Japan saw a significant decline this quarter. The reason for this is a very large inventory build up last quarter, related to the earthquake in Japan, and end users are now normalising their stocks.

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

Lene Skole

Thank you, Lars. And we are now on slide number five.

Gross profit amounted to DKK 4.9 billion, equal to a gross margin of 64%. This is an improvement of three percentage points, compared to the same period last year.

Increased efficiency in the production economy and lower salary expenses from transfer of production continue to drive the positive gross margins development.

We reduced the number of job positions in Denmark by 83 in the first half of 2010/11, as a consequence of the relocation, which was completed in March 2011, in March this year.

The gross margin includes costs of DKK 25 million, related to these layoffs.

The SGA to sales ratio was unchanged at 36%. The SGA includes increased investments of around DKK 70 million in sales activities in Wound Care and in China, as well as costs of almost DKK 30 million, related to restructuring. Of these 30 million DKK 10 million were related to the relocation of finance functions from the European subsidiaries to the shared service centre in Poland, and were booked under administrative costs in Q2. Poland is now performing finance processes for all the European sales subsidiaries as well as for the headquarter, and we are very satisfied with the performance of our new shared service centre.

Further, we have started to implement the Lean and Agile project. The project was disclosed to you during Lars' presentation at our Capital Markets Day in Hungary, and the aim to reduce administrative tasks, while increasing focus on business support. This impacts distribution and admin lines with around DKK 10 million each, and constitutes the remaining portion of the 30 million restructuring costs.

The R&D to Sales came in at 4%, in line with previous spend. This results in a reported EBIT margin of 24%. Net of currency impact, the EBIT margin was equally 24%.

Free cash flow was DKK 869 million, compared with 957 million last year.

The decline, compared with last year was due to higher tax payments, additional tie up in working capital, and finally, the acquisition of Mpathy Medical Devices.

Increased earnings and gain on forward contracts compared with the loss last year also had a positive impact on the free cash flow.

Since the beginning of the year, receivables have increased more than justified by the revenue growth. The additional increase is caused by a general delay in payments in southern Europe. Q3 in isolation did show a slight improvement as receivables increased less than revenue.

Net interest-bearing debt to EBITDA ended at 0.5, against 0.9 for the same period last year. Our net debt to EBITDA target range remains suspended, as we continue to look for suitable investment opportunities. As we have mentioned earlier, we want to avoid having excess cash in our balance sheet, but as we remain focused on investing in our business, and to participate in the consolidation of our markets, we will, in an interim period, accumulate cash on the balance sheet.

Capex amounted to DKK 194, corresponding to our capex to sales ratio of 3%, reflecting continued low spend.

Now, can I please ask you to turn to slide number six?

For 2010/11, we continue to expect to grow around 6% organically, but now around 7% in Danish krone. The change in Danish krone is prompted by the appreciation of American dollars, British pounds sterling, and Swiss franc against Danish krone, since the second quarter release.

The growth guidance remains impacted by the current performance, especially within our Wound Care business. As Lars mentioned, we are convinced we have taken the right measures, and remain committed to seeing the results of our turnaround activities in our Wound Care business.

Mpathy is still expected to contribute 40 basis points to the reported growth, and is included in the current growth guidance.

The guidance still includes a potential negative impact on revenue of up to DKK 50 million, stemming from our SKU reduction project. Currently we have discontinued around 1,400 SKUs in Continence Care and Ostomy Care.

Our EBIT margin guidance is also unchanged, around 24-25% in fixed currencies, as well as in Danish krone.

The Q3 cost of around 20 million related to the implementation of staff reductions, mainly in headquarters, that I mentioned earlier, will be absorbed by efficiency improvements and relocation gains in Hungary and China.

Our capex guidance for 10/11 is unchanged at around 300 million, and finally, our effective tax rate is expected to remain around 26%.

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

Questions and Answers

Carl Bradshaw

Hi there. Thanks for taking my questions. So the first question relates to your Wound Care business. The negative 1% underlying growth in the Wound portion of your Wound and Skin Care business in Q3, is that a function of the negative mix effect that we're seeing generally across the Wound Care market, or is that just an issue with not getting the volumes that you would like? And as a second part to that question, it seems like you're extending your timelines that you've given yourselves to turn the Wound Care business around. Have you set yourself a new timeline for this, or are you committed to the Wound Care business, no matter what?

And then my second question relates to the FDA panel, regarding the surgical synthetic mesh. It would be great if I could hear your thoughts on that, and if you could provide some details on what the additional clinical studies are for your Altis product.

Thanks very much.

Lars Rasmussen

The reason why we do not… or why we see the negative 1% growth is primarily south Europe. So the areas where we have decided to invest in going forward in the chain, ie, to go for the Community market, we do see the uptake that we expected to see, but there have been a couple of negatives there. The one negative is of course that the prices over the course of this year went down in the UK, on the silver dressing segments. That was an unforeseen, which took down the market value in the UK. And the other thing is in south Europe. We are very exposed to the European market with our Wound Care business, and therefore we feel what is going on in Europe disproportionately hard, you could say.

So that's basically it. We have not set ourselves a precise goal for how much we want to grow. We are very committed to creating value for our shareholders. We fully understand that we can only create value when we grow the business and when we improve on the profitability. And we can see what is going on, where we are investing, and we feel quite certain that we will see growth, going forward. So we can basically see that this business will create value.

When it comes to commenting on the surgical panel, I think it's very hard for us to comment on it. I would remind you that it’s not a very large part of our business that we are talking about, and it’s also very important for us, of course to also highlight that there is a reason why you have these implants today. It’s because the non-implant solutions also have a number of side effects, and what we are aiming for, and what the market is aiming for, is to make sure that there are solutions that are as small and as insignificant to the body as at all possible, and we have one of the lightest meshes in the market, so we think that we are well positioned, and I think it's something to the tune of two or three of the many cases that have been reported, more than 1,000 cases that includes Coloplast products so it’s very, very limited, what we see from that.

Okay, that’s great. Thanks very much.

Jacob ()

Good evening, Jacob () from Standard and Poor’s here. Thank you for taking my questions.

Just a little on the guidance. It seems we're talking about sort of the sales growth is depending on the development in Wound and Skin Care. I know I'm taking the risk of sounding like a pedantic semantic here, but given the growth numbers, sort of the organic growth in Q3 was like thrice the level in Ostomy and Urology, is that really what we are going to have our sales growth really depending on what's happening in Wound and Skin Care?

And then just a sort of a small couple of things. Sort of visibility on the receivables in southern Europe, Lene you mentioned that Q3 looked slightly better, but are you making any sort of provisions for non-payment, or how is that looking?

And then just on admin costs: are we going… are we going to see this coming down again, because this is the fourth quarter in a row this has gone up around 1.6, 1.7 percentages points now. So is this going to come down? Or is this sort of the level we can expect, going forward?

Thank you very much.

Lene Skole

Okay, Jacob, thank you for your questions.

First of all, with regards to the guidance, where you mentioned whether you should sort of place all your bets on Wound Care, and if that doesn’t succeed, we won't meet our guidance; that's definitely not the intention by what we say. It is something that we've talked about from the very beginning of the year that Wound Care would be a factor. We thought it would be right just to keep it there, and it is a fact of course that the Wound Care impacts our growth guidance, but you know, don’t put more into it than that. The guidance of around 6% is the… what we see for our business for all of our businesses combined.

If you then… you mentioned the receivables, and yes, it is correct that there has been a slight improvement in Q3. We are doing a lot to improve on our overdues, and if you look at, you know, our overdues in total; now, I'm not just talking southern Europe, but in total, we've actually been able to keep them at a very reasonable pace and level, compared to our sales growth, but it is also correct that of the overdues we can see that southern Europe becomes, you know, more and more important, constitutes a larger and larger percentage of that for us. I believe the same thing is for others that are doing business down there.

Obviously we look at provisions. We have some provisions, and it is something that we will increase as and when necessary, so that we make sure that we are as conservative as we were at the beginning of the year, when it comes to receivables.

With regards to admin costs, they have gone up. That is correct. We have also had a number of one offs. We already had in Q1. We had 12 million connected to the shared service centre, and in Q3 we have had ten… regarding the cost structuring, so there are some additional costs that we have taken, with the aim, obviously, of improving this line, going forward.

So the way we look at it is that I would actually… I would really, ideally like to see our admin being below 6% of sales on a continuous basis. That's what we're aiming for.

I hope that answers your question, Jacob?

Okay, thank you.

Just, if I may, just a quick add on?

Yes.

The investments in this, in sales, in the… let's call it efficiencies in Wound and Skin Care. They were mentioned as being to the tune of around 70 million Danish. Is this sort of a new level, or are these sort of one off investments? Or how should I understand, or should we understand that?

You should understand them as being the major part of it as a significant investment to our Wound Care business, related to our plans, so therefore… I hesitate to call it a one off, because that would be the same as saying, you know, not investing in sales, going forward, but we did have a significant investment in Wound Care in connection with building our community sales force, so therefore I would expect that relative to say it's probably somewhat higher than you would see in a normal year.

China, we invested in more sales staff there. I think we will continue to expand and invest in sales staff in China, also, going forward.

Okay. All right. Thank you very much, both. Thank you.

Ed Ridley-Day

Good evening. Thank you, and congratulations on the results.

Firstly, on SenSura Mio, clearly good momentum in the markets you've launched in. Can you remind us the launch schedule for SenSura Mio into your major European markets, and also for the US? That will be my first question.

Lars Rasmussen

That will be within the next 12 months. I would probably hesitate to come out and be very specific per country. But it's so far only launched in five or six countries, so there is still a host of countries to go for.

Okay, but can we take it therefore there'll be like a gradual rollout, quarter by quarter? We're not going to see sort of a gap for six months, and then all launch beginning the next calendar year?

No, no. It's a rollout. There are new countries coming on every single quarter, so it's… we are rolling out as fast as we build up capacity.

Very good. And just in terms of the US catheter market, do you believe it now has normalised, and if you do believe it has normalised, can you give us some colour about how fast you think it's growing?

It's probably difficult for me to say that it's still normalised. It is a single-digit growth market, as we speak, and we continue to see that also, going forward there's nothing substantial that will change it. We don't expect it to be a declining market, at all, and we are also investing to make sure that we get the best out of the situation that we have in the US.

Okay, very good. And my final question, just on the European growth in urology; obviously encouraging; can you give us a little bit of colour in terms of which markets were driving growth for your European urology business? Which individual countries?

It's primarily France. That's where we have the biggest part of our business. But overall it's actually very positive what is going on in Europe, so of course I'll have to remind you that it's still from a small business base, but it's very healthy, what's going on.

Very good. Thanks very much.

Welcome.

Klaus Madsen

Yes, hello. It's Klaus Madsen. I was wondering if you could comment on the cyclicality, even though it's very limited in your business, but could you comment on whether you see any halt (or hold?) in tenderings from emerging markets, whether you see any destocking at the distributor level? And finally, you already touched on the risk of cancellations on elective surgery, but if you'd maybe just follow up briefly on that?

Then, if you could comment on the progress on the pruning of your portfolio, or the number of SKUs, whether you've seen the expected negative top line impact? And to what degree you successfully convert customers to other products?

Those are my questions.

There's no cyclicality in our business. But of course in many markets we have tenders, so tenders, they can make a difference from one quarter to the next quarter. So can stock build up or stock reductions in the trade, which, for example, was what we saw in Japan.

And it's not always that we have a very good handle on exactly what is… who is building up stock, and who is trying to reduce stocks. So in that sense, you will see, from quarter to quarter that there are swings. So the fact that we have this quarter a somewhat stronger performance than we had last quarter is not because we have had many customers this quarter, it's also because there have been some stock adjustments taking place. There's no doubt about that. So the underlying business is very, very stable.

And when it's… of course you could say that when you have the summer holidays, people are asking for more products, but that would be the same last year in the summer holidays and this year in the summer holidays, but… yes.

When it comes to the SKU reductions, we have taken out approximately 1,500 SKUs at this point in time. It's very, very hard for me to comment on the impact on the sales, because that's very hard to follow. We don't necessarily exactly know what people are doing instead of the products, or what they're using instead of the products that they… that we discontinue. But so far, when you're looking at our numbers, it seems as if it's not been taken too negatively by the market.

Right. Then just two follow-ups. Germany is doing better, you were saying, do you see a structural improvement in Germany, or is it just more volatility in the performance down there? And then with still some, you could say one off factors inhibiting growth in Q3, and I guess the ambition to at least repeat the performance into Q4, would there be any reason to expect a weaker than 7% organic growth in the final quarter of your year?

That's a very good try, Klaus. When it comes to Germany, I would like to say that we have had a very solid plan in place for Germany, which we have been implementing meticulously, and we see the results of that, and it's not least our Continence Care business, which is really growing well in Germany, and Wound Care is also doing quite well.

And I have to say that I can't remember the second part of your question.

I guess you ()()().

Lene Skole

No, I think we probably wouldn't answer it anyway, so I think it's okay.

Lars Rasmussen

Oh, that was (overtalking and laughter).

Thank you.

Lene Skole

Sorry, Klaus, if I said something wrong there, and if there was more in your question, please go ahead.

No, I think you… you've revealed your stance.

Jasper Brightensteen

Hi, yes, so Jasper (?) here. On the US market, new management has been in place now for a quarter, so any new thoughts on that market from new management? Any comments?

Lars Rasmussen

We are very pleased with the start that the new management team have got. They have put a very comprehensive plan in place. A very simple plan, but very, very powerful, to the best of my judgement. They have also organised around it already, and they are going ahead implementing it. I can safely say that we really like what we see, but you know, the proof is in the pudding, so it's all to do with what kind of resource that they are delivering. That's what's really important, and that's too early to say.

But this plan, does it require new people? Or significant changes to the staff? Or is it a low risk plan, or a high-risk plan?

I think it’s a plan, which is addressing the potential that we have in the US. It is not a plan where we have to change the whole organisation around. It is a plan, which is built around the staff we already have there, and it is also a plan, which includes that we are having more people on board in the US.

Okay. Thank you.

Idan Wang (?)

Thank you very much for taking my questions. My first question is, looking at the Wound Care business, Lene, would it be possible for you to give us the Q1 and the Q2 growth, ex Skin Care and Contract Manufacturing? Just want to see, you know, how that Wound Care business is developing. Looking at your comments in the press release, it seems that you have made an improvement, or you have delivered an improvement in the third quarter.

And then… Yes. If I could have that first, then I can ask the rest.

Lene Skole

No, I mean, we don’t have that, and we are not going to split out the Wound Care for the first couple of quarters, and this is something we did specifically this time, because when we looked at the growth number for the combined Wound and Skin Care, then if we didn't split it out, you know, it would sort of be muddled. The real message for Wound Care would be muddled, really, by the combined performance of the Skin Care and the complete sales, so that's why we split it up, but it is not something we intend to do on a continuous basis.

Right. Okay. Then, if I could just confirm something then? I mean, you said that excluding Skin Care and Contract Manufacturing for the first nine months that business declined by 2%, but it only declined by 1% in the third quarter, which would suggest that you’ve made quite a significant improvement in the third quarter.

It is correct that we see an improving trend, and that is also of course what's behind what Lars mentioned before that the underlying improvement we see makes us committed to the Wound Care business. There is something that you of course should be aware of, all of you, when you look at the Wound Skin Care total numbers, is that there is an underlying improvement, actually both in Skin Care in Contract Manufacturing and in Wound Care, and in particular for Skin Care and Wound Care.

Please bear in mind that we also have some easier comparison numbers there for Skin Care, because we no longer have the high sales last year of hand cleansers and for Wound Care, because in particular because Greece now has some more… some lower comparison number. So that should be borne in mind as well, when you look at the development in Wound Care, and that's why we have talked so much about what are the underlying things that we are seeing that makes us confident the we stay in Wound Care, because we are seeing some underlying improvements there, as Lars mentioned earlier on.

Okay. And then in your comments, in your press release, the comment that you don't expect to see growth in 2011 any more, do you mean, calendar 2011, or do mean your…?

Calendar 2011.

So in any of the quarters in 2011 you don't expect to see growth?

It is calendar 2011, yes, so that's correct.

Right. So given that you're kind of only declining by 1%, and presumably the business would continue to improve, I'm somewhat sort of surprised that you're not expecting that business to grow in the next couple of quarters. Are there any other factors that we should consider that would explain that development? I mean, are you expecting, for example, the market to weaken further? And any sort of difficulties you might have with people paying you? That kind of thing.

There is nothing in there with, you know, difficulties with people paying us. That's not in part of the numbers. I'm sure, maybe that Lars has some specific comments to add, but I think we should also put into perspective and say, when we look at the Wound Care business and we look at the remaining quarters, you know, turning it from a minus one to a flat, to maybe a little bit more, is really just a very small amount in terms of actual revenue, so it is difficult to predict that precisely. I think that the message that we're sending that we don't expect growth is more important than exactly whether it will be minus a little bit, or plus a tiny bit. It is still the same message that we don't expect to see growth this year, and it is the underlying improvements that we see that we have based our decision to saying we'll carry on.

So, Lars, do you have additional comments to make to that?

Lars Rasmussen

I think I'd just like to reiterate what I said before. It's… we really like what we see in the countries where we are investing, but we also have concerns where things are not really going very well, like, for example, Spain, and I just think that we try to make sure that the expectations in the market are also expectations that we do meet.

Right. Hopefully my last question, on Wound Care. Why is it taking much longer than you expected to deliver the results you're hoping for, other than the… you know, if you exclude the market factors, which, you know, we're aware of, are there any operational sort of changes that have held you back, and if so, what are you doing about it, and when can we start to… well, when will those initiatives complete?

I think really it is the underlying factors in Europe, which are blocking us from delivering the growth. It's primarily the situation in the UK, where the silver bandage markets were reduced by almost 25% on the prices. That's a very significant factor for us being at minus one instead of plus one.

And then the decline in the southern part of Europe is also… well, it is really a tough one, but there's nothing in the way that we run the company, which is significantly different, so in that sense, we don’t see that being a major… you know, we don’t have a lot of things going on, which we would expect also to block us from growing.

Sorry, the last comment? I missed that.

Oh, I'm just saying it’s primarily the downturn in the UK, which is the problem.

Right. Okay. And then a question on the broader funding environment, given the uncertainties that we've seen, over the last few months, how do you think that would impact your business, going forward?

That's a very good question.

And also in the US.

It’s a very good question. We had a very comprehensive Capital Market Day recently, which you unfortunately could not participate in, where we went through this very… in a lot of details, and I think that that's at a point, you know, hopefully very soon that we could update you on that, because we have a quite good picture, I think.

Okay. Great. Thank you.

Richard Cosh

Hi, this is Richard Cosh (?) at Shabra (?). Two questions. Out of the 50 million costs that you expect to take for SKU reductions, how much have you taken so far? And the second question, assuming that the currency rates stay pretty much where they are, what kind of FX impact could we expect in the net financials in Q4?

Lene Skole

I think if we… I think we've already earlier on also in this conference call, touched upon the SKU reductions. It is actually extremely difficult; I would even say impossible to say exactly how much that impacts us, because we simply don’t have, and we don’t get the necessary information so that we can follow up and say, this is exactly how much it actually ended up costing us. We would love to do it, but we simply can't do it.

With regards to currencies, I would expect, without putting a number on it, with the FX levels that you see today, there would also be a positive impact in Q4 of our hedging.

But you can't quantify on that ()?

No, I can't give you an exact number on that, no. I don’t have that here.

Okay. And I just want to come back to the question we heard just a few minutes ago, regarding your… or how the economic downturn could impact you. You didn’t really answer to that, as far as I can hear. Could you…?

Lars Rasmussen

No, but it’s because it's… We have revealed everything we know about healthcare reforms. The underlying business that we are in, you know, it's a business, which is primarily for people who are older, and who are suffering from chronic diseases, so we do know that they are old people, and we do know that it’s a long-term trend. Exactly how much the price pressure will be, we don’t know. The best measure we have for the time being is the one is the 1% per year. That is what we believe it could be, going forward. We have not had that effect on average. For the last five years, for example, it’s been less, but the best guidance we can come up with is the 1% price decrease per year.

Lene Skole

If I may add to that, I think, because it is not… I mean, we have been talking about this obviously for the past couple of years, since the financial crisis really started hitting, and, you know, we are still growing at around the 6% that we have been so far, and we can see that during that period at least, and I know this is looking backwards, and you asked me to look forward, but during that period, then that 1% has been sufficient, and we still feel comfortable with that, but obviously it’s very, very difficult to say what might happen, but we have had difficult economic environment in our key countries now for a couple of years at least, and so far things, you know, seem to be okay for us.

Okay. Thank you.

Christian Masterdell

Yes, good evening, ladies and gentlemen. Thank you for taking my questions. Most of them have already been answered, but I have one remaining, and I think that goes for you, Lene. It's regarding your non-recurring cost. You are booking 20 millions in Q3. Should we expect any further one offs in Q4?

I think for Q4 we will expect a little bit. We are running this Lean and Agile project, where we have done a significant part of it. There is still a bit to go, and I can't sort of tell you exactly how much we will expect. The reason I can't tell you that is that I don’t want, at this call, to start revealing something that we have not revealed to the organisation, and we talk to them and reveal, as and when we execute on this project.

Okay. But could you put some… should we expect that to be both on distribution costs and admin, as the case was in Q3? Can you say something about that?

No, I can't. I mean, I think the only thing I can say is that it is included in our guidance.

Yes, okay. Thank you. I have no further questions.

Thanks.

Curt Bodday

Yes, good day, and thank you very much for taking my questions. Firstly, on the Wound business, if I may? And thank you very much for giving us where you've broadly achieved in terms of EBIT margin of around 15%. Can you please just qualify that that is not just your sort of underlying Wound business? That is your entire Wound business, including Skin and Contract business? And also that your growth projections for a flattish development this year is the division at whole? Please if you could just clarify that, that would be appreciated.

Lars Rasmussen

Yes, I can take that right away. It’s Wound Care only. When we talk about the 15 percentage points that we have, include our EBIT line, and it's also, when we talk about flattish development that's also the Wound ()()().

Lene Skole

I'm… I'm not quite sure whether it was because I misunderstood that I didn’t quite hear all of your question, but just to make absolutely sure that it's clear to everyone, the 15% is an improvement that we have made over the course of the project. It’s not stating an EBIT margin for the Wound Care business.

Lars Rasmussen

But it's talking about Wound Care, alone.

Lene Skole

Yes, exactly.

Lars Rasmussen

It’s not Wound and Skin and so on. It’s only Wound Care.

Lene Skole

Yes.

Thank you. So just following on, 15… So just so I fully understand, we're talking about a 15% margin, EBIT margin improvement for (overtalking).

15 percentage points improvements, yes.

Percentage points. Okay. Could… are you able to give us what your current Wound margins are?

Lars Rasmussen

No. We're not.

Lene Skole

We can't.

I noticed that you… you've raised a small amount of debt, within this quarter, and you've also given some of the trends that you've had in Wound Care remain pretty committed to further strengthening this business. I wondered if you could discuss a little bit more broadly, you know, whether you anticipate doing some transformational M&A, within Wound Care, or whether you see a more sort of small to medium bolt on type acquisition?

We can't really discuss that.

Could you possibly comment whether any acquisition you will make be funded from your cash and debt availability, or could you ever discount raising any equity at all, to make such an acquisition?

And that again is something that we can't really comment on. You asked about the debt that we had taken up. I have been asked earlier on today about that as well. It's the loan from the European Investment Bank, and we actually negotiated that just when the financial crisis, not the very, very recent repeat, but the financial crisis originally started, and at the time, the purpose of the loan simply was that we could see all of our loans were up for refunding in 2013, and we thought that we could get a good, relatively small loan with a long tenure, and therefore reduced the risk that we would at one point in time need to refund all of our loans. That was actually the pure reason for taking up that loan. It was not specifically done to build a war chest for M&A. And with regards to what we will do at the time, when M&A may become relevant, there are a number of options open to us. We have lots of banks calling us that have great ideas of how we could do this, so we will look at it when that becomes relevant.

Thank you. And you would have obviously seen that one of your competitors in Wound Care, Smith and Nephew, have recently been talking a little bit more positively about the potential to acquire assets. Do you see a situation where asset valuations increase significantly within this process, or…? I just wanted to know to what degree of discipline you'll be applying for your acquisition.

We are very disciplined in everything we do, and we will be disciplined also when we look at acquisitions. And of course with regards to, you know, Smith and Nephew, no comment on that, except that, you know, it seems that other than us also think that Wound Care is attractive.

I understand. I have a few quick questions, if possible, and it would be good if you could answer them.

Just in terms of the FDA health notification: thank you very much for qualifying your… or quantifying your exposure to public or organ prolapse. I was to understand also that the warning was suggested for Stress Urinary and Continence as well, so I wondered if you could give me some sense of what your total Sling revenues, and some thoughts perhaps on whether this will have any negative () whatsoever to your Altis FDA approval.

Lars Rasmussen

It's not yet part of that discussion in the panel. It's only the pelvic organ prolapse.

Do you see any risk at all that it becomes part of that discussion?

Yes, absolutely, because we talked about the implants, but so far it is not.

So you're still relatively upbeat that Altis gets approved in mid next year?

Well, we don't have any new information that it should not.

Okay. And could you give me some revenues on what your current Sling revenues are, or…?

No. But it's not a big part of our (overtalking).

Significant part. Thank you. And just, interesting, just talking about Ostomy, if possible, obviously you put up again some very solid Ostomy growth numbers this quarter. I just wondered if you could please comment on your growth in Europe, whether you still consider yourself growing above market in Europe, or whether you feel as though you're sort of growing in sort of a little bit less than the sort of 4-5% range in Europe?

No, we are quite certain that we are winning markets here. Also in Europe.

And just a last question, and just more broadly, have you noticed at all any change in the percentage of revenues you're gleaning from Ileostomy, rather than Colostomy? I'm just trying to get a sense of more of your businesses tending towards temporary ostomies, rather than more permanent ostomies that you can treat in a chronic care setting?

No, I couldn't give you that, at this point in time.

Thank you for taking my questions. I'll jump in the queue if there's any more availability thanks.

You're welcome.

Veronica Duvalier

Yes, good evening. Veronica Duvalier (?) here, from Goldman Sachs. Thank you so much for taking my questions. I have… sort of my first question related to Wound, and more *conceptually, I think it's fair to assume that the business is now, is currently achieving below group profitability, and just thinking forward, once you do get to a point where you're growing in line or ahead of the market, will that be sufficient for you to get the profitability level to around, let's call it 24, 25%? Or do you really need to increase your scale significantly, to be able to get to that level?*

Lene Skole

That's a good question, Veronica. It's a very good question.

I think the best way of answering it is probably that when we look at the available information that we, you know, can get our hands on, from competition, and from those that have Wound Care of scale. Then it looks like you can get to, as you also say there, reasonable margins, when you have scale. But when we then look at the smaller ones, it also looks like there is a limit as to how much they can actually achieve, so without… I mean, we will obviously, once we, you know, see growth, we'll start doing whatever we can, but just sort of, at least my point, my view would be that in order to get to the really attractive EBIT levels that are at par with what we see some of the big Wound Care companies, then, yes, we do need more scale, and we need more scale than what we can immediately grow organically.

Okay. That's very clear, then, thank you. And can I ask a sort of… a follow up on your statement earlier about keeping cash on hand for M&A? Is it therefore fair to assume that we should not be expecting buy back from you until you have made an acquisition?

I don't know, and I can't answer that. I won't rule it out, and I won't say that there will be, but that will be a discussion we will have with our board, and that's a discussion we will have in November, so that we will be able to announce that when we announce our full year results.

Okay. Very clear. Thank you. And hopefully, just two quick housekeeping questions, which is one, any update you can give us on the pricing discussions you have in France, ahead of the scheduled price cuts, and second, I don't know if you can, but really, what would be helpful is a breakdown in the quarter, between volume and price growth. Thank you.

Oh, yes. With regard to France, there is no news that we can give you. Our public affairs people and our French organisation are working together on that, obviously continuously, but there is no news that I can give you. And as to a breakdown in the quarter volumes, and there's no (overtalking).

Lars Rasmussen

There's no… we can't do that. But we cannot see any… there have been no price increases, really, this quarter.

Okay. So I'm going to ask that question differently. Is it fair to assume that price was not down more than 1%?

That's a fair assumption.

That's right. Thank you very much.

Nils Ledd

Hello, this is Nils Ledd (?) here. Good evening. I couldn't hear my name, actually. Most of my questions have actually been answered already, but just a few housekeeping questions here. On amortisations, it is fair to assume that amortisations will still end up at the same level as last year, around DKK 180 million? And that amortisations would fall by approximately DKK 100 million from fiscal 2013?

Lene Skole

It is fair to assume that they will be approximately the same, and it is also fair to assume that they will fall from 2013, but not by 100 the first year. That will be a gradual reduction in the amortisations.

Okay. And on your long-term capex level, now that you are at around 3%, should we expect a long-term capex level of, say, 5% or so?

Yes, I think there's no change there. I mean, we keep saying that, you know, long-term, probably five, maybe a little bit less. It's a bit difficult to say, because we've been in this position, where we have held back, and been very efficient, ever since we transferred, so we don't really sort of have a normalised level, but we would certainly expect absolutely no more than five, and hopefully a bit less.

Okay. And then finally, on your tax level, I know there are some changes taking place in Hungary on corporate taxation. Will that have any impact on your business?

If there is anything… well, basically for all the countries that we are in, as we only leave a mark up and the required minimum mark up that we need to leave in the countries, then we are not very exposed to changes in tax rates outside Denmark.

Okay, thank you.

Jacob ()

Back in the queue again, thank you.

Idan Wang

Thank you very much. It's Idan from Deutsche Bank again. Just… I have a couple more questions. One is on Ostomy and Continence Care, can you comment on how much risk there is for adverse mix changes by… in those businesses? And then the second question is (overtalking).

Lars Rasmussen

Just hang on a second. Hang on a second. What do you mean, adverse mix changes?

Meaning, if you look at the range of products you have in Ostomy and Continence Care, there are different price points for different kinds of products, right, so for example, in Continence Care you have the coated versus the uncoated catheters, so I'm just wondering, in the current environment, what sort of risks do we have that you might see increasing use of, say, for Continence Care, uncoated catheters, and reduced, or a lower use of coated catheters. Is that something we should worry about, or… you know, how do you think that would play out?

So I think we could take that question right away, because… and then come to your next question, because if you look at the current market environment, then also how it has been over the last two, three, even maybe more years, in some countries we have to hold hand with every single customer, and take them all the way through the process, where they, you know, are approved for one product or the other. In some countries people just get what they ask. In other countries they just get what is the lowest price. So it’s impossible for us to give you an answer, which is covering, globally, because it is different from country to country.

We have acknowledged that situation. That is why we have created what is called Coloplast Care, which is a service for people who are, you know, newly been… who have newly got their situations, so in that sense they have a 12-month free hotline, where we help them through the process of getting on the right reimbursement category, so in a sense that is an answer to the fact that that is more cost consciousness in the society. We do, however, also see that once you advocate why you should have one or another product, it works.

Okay. And then the question on SenSura Mio, can you comment on the competitive landscape for that product, and how your product… or is there any that's available, how your product is, I presume, better than theirs?

Yes. It's… Well, in Ostomy, unfortunately, the biggest problem people still have is leakage, and we can see that people who are using SenSura Mio have significantly fewer episodes with leakage than people who are not using it. So that's the big benefit of this product, and that's also why we think that we take such a great uptake in this.

Now, we are very close to closing this call, and therefore, you know, you are always exceptionally welcome to call anybody from the IR team, but I think that we actually are out of time, and we can't take more questions.

All right. Can I just finish that one off? I mean, is there a competing device, for that? Category? In that category?

There is… we do see that there is one company that has launched also a very soft adhesive. I will not promote any of my competitors here.

Sure.

But we also see that there is no one working as nicely as ours.

Okay.

You could probably get a similar statement from other companies, but this is the true one.

Sure. Thank you.

Closing Comments

And then I would like also to say, thank you, everybody, for participating, and for all of your questions. It was a pleasure speaking to you. Looking forward to seeing you in the near future.