Coloplast
Tuesday, 3rd February 2009
14:00 Hrs UK time
Chaired by Lars Rasmussen

Lars Rasmussen

Thank you and good afternoon and welcome to this first quarter 2008/9 conference call. I am Lars Rasmussen, CEO of Coloplast, and with me here today in Humlebaek I have the CFO, Lene Skole, and head of IR, Ian Christensen (?). As usual we have scheduled this conference call to last about one hour so let's get started by turning to slide number three with the key messages.

Let me start today by highlighting the key messages in our Q1 numbers. We realised a 6% organic growth and a 4% reported growth, impacted primarily by crunches (?) and the situation in Germany. We realised an almost unchanged EBIT compared to last year before special items and we have improved our underlying margin to 17%. We are satisfied with this result. We have taken action on a number of issues in this quarter. We have finalised our Wound and Skincare analysis, which now leads to a reduction of impositions (?) of 63. I will get back with more details later in the presentation. We are improving our European Urology business and we concluded the negotiations with the unions a few days ago about the blue collar headcount reduction in the Danish part of global operations. The final number is 142. Including the 31 in Wound and Skincare you arrive at 173 in total. Talking about the financial crisis, I will highlight for you the affects that we see. The weakening of the pound sterling hit us and lower employee turnover forced us to make layoffs in global operations in Denmark to make our plans for moving our manufacturing fit. Also we see some evidence that certain distributors reduced stock in Q1. In spite of this we maintain our guidance in local currencies but we have to revise our growth expectations in Danish kronor from, previously, eight to 9% to now seven to 8%. The remaining guidance is unchanged, but more about this later. Please turn to the next slide, which starts with sales in line with market growth.

In kronor revenues were up by 4% to almost DKK 2.2 billion and the organic growth was 6%. In Europe, revenue was flat and amounted to almost DKK 1.7 billion but the organic growth was 4%. Still, this quarter growth was affected by the declining sales of Ostomy Care products to the German market due to the situation in Seiva (?). In the other European markets our Ostomy Care and Continence Care businesses generated growth in line with expectations, while Wound Care still operates below expectations. Currencies reduced growth by four percentage points, primarily due to the weaker pound exchange rate against kroner. Revenue in the Americas rose by 20% to DKK 341 million and the organic growth was 13%. We achieved satisfactory growth in all business segments. We continue to see the positive effect of the improved reimbursement for catheters in the US market and our Skin Care business did very, very well this quarter. Revenue in the rest of the world, in which Japan and Australia represents the two largest markets, improved by 17% to DKK 172 million while organic growth was 11%. Please turn to the next page.

Sale of Ostomy Care products increased by 2% to DKK 922 million. Organic growth was 4% compared with the market growth of four to 5%. Excluding our sales in Germany, growth was 9%. The SenSura Pack (?) range is still the main contributor to growth. And a few more words on the German situation. Yesterday we decided to appoint a new general manager for our German operations. The reason behind this change was disagreements about the future strategic direction of our business in Germany. The new general manager, Kiga Carsen (?), was previously heading Coloplast’s Nordic business and he will strengthen our organisation in Germany. This is needed in light of the continued challenging market environment. Please turn to the next page.

Urology and Continence Care revenue increased by 6% to DKK 912 million or 8% organic growth. Changes in pound sterling exchange rates against kroner lower the reported growth rate by almost two percentage points. Sales of intermittent catheters continue to be very satisfactory and, again, it is the SpeedyiCath products that enjoyed good growth momentum. The Peristene (?) System continues to generate healthy growth rates and so did our Convene (?) products. Our penile implants in North America remains strong. Our penile implant business in North America remains strong. In the Certical (?) Urology business in Europe we saw an improving business growth in line with or better than expectations. Please turn to the next page.

Wound and Skincare products generated a revenue growth of 4% to DKK 362 million whereas the organic growth was 5%. The major European markets for Wound and Skincare products continue to be very competitive and prices remain under pressure. The Biatain portfolio of foam dressings for chronic wounds continues to generate satisfactory growth whereas the sale hydrochloric dressings declined slightly. The quarter saw, also, high growth in our American skin care business. And please turn to the next page.

November 19 last year we announced that things were about to change in our Wound and Skincare business. We said that we would start a detailed analysis of the Wound and Skincare business with the aim of improving the business and increasing profitability. We are now done with this analysis and it gave us a list of measurable conclusions to work with. We have started by simplifying our Wound and Skincare organisation. So far this has led to a reduction of 63 positions in December and January. We have implemented cost reduction programmes in Coloplast in general but have taken this one step further in Wound and Skincare to also include R & D, marketing and so on. Furthermore, we will focus on high value markets and we are currently identifying the right distributor set up in the remaining markets. We have also been working for some time now to identify possible improvements to our production of Biatain products and we expect to achieve production economy improvements by moving Biatain products abroad. Finally, the work at simplifying our product offerings in the markets, as previously mentioned we still expect this to reduce revenue growth in the range of one to two percentage points in 2008/9. We expect that the positive effect on EBIT will be offset by restructuring charges in this financial year. This is part of our guidance, and with this I’ll hand over to Lene who will continue from here.

Lene Skole

Thank you, Lars, and please turn to the next slide, which is slide number nine. Gross profit for Q1 08/09 increased by 1% to DKK 1.3 billion. This gave us a gross margin of 59% against 61% last year. Considering the fact that we laid off some people in

September 2008 and the fact that we have continued to transfer production to Hungary, it would be reasonable to expect to see an improvement in the gross margin. The reason we do not see this improvement is twofold. Firstly, the exchange rate development, especially the weakening of the pound sterling against Danish kroner, reduced our gross margin by one percentage point. Secondly, we produced relatively low volumes in this quarter in order to reverse the increasing trend in inventories, whereas we, in Q1 last year, produced extraordinarily high volumes to safeguard our ability to deliver to our customers during last year's higher transfer activities. This has resulted in a less effective use of our production capacity and thereby a decrease across margin. All in all, our underlying gross margin was at par with Q1 last year and better than the gross margin for all of 07/08 and we are reasonably satisfied with this underlying development. Now please turn to the next slide.

Our EBIT was in line with last year and the EBIT margin was down by one percentage point to 15% compared to 16% last year. Comparing to Q1 last year, currencies and the restructuring charges of DKK 5 million impacted our EBIT margin negatively by two percentage points. This means that the underlying margin was actually up by one percentage point to 17 and I must say that I'm very happy to now finally see our underlying EBIT margin moving upwards. Looking at our SG&A costs, we continue the declining trend. Many internal programmes are now in place, focusing further on efficiency improvements. These range from reduced travelling to ( ) efficiency programme. Our distribution costs increased by 1% and equalled 30% of revenues. On an absolute basis, distribution costs increased but, relative to sales, they were down by one percentage point. Administrative expenses fell by 17%. This equals and improvement from 10% of revenues in 2007/08 to 9% this quarter. We're very satisfied with this development and are happy to see the positive effects of our efforts. Looking at R&D, we see an increase in cost of 32%. This is consistent with a strategy to increase innovation spending. R&D costs are now about 5% of revenue, which is in line with the full year 2007/08. We took a restructuring charge of 5 million in Q1 08/09 and this was related to the layoffs in our Wound and Skincare business. We expect total restructuring costs of up to DKK 75 million, booked under special items for this fiscal year. These are all a result of the implementation of our various efficiency initiatives. Roughly half of the remaining DKK 70 million restructuring costs will fall in Q1 and the rest in Q3 and four. Now please turn to the next slide.

We believe Coloplast continues to have a healthy balance sheet. We have 3.9 billion in debt, of which around 75% is fixed interest debt. We finalised a new committed facility with the European Investment Bank this quarter totalling DKK 440 million so that we, today, have DKK 5 billion in committed credit facilities, of which around 70% are utilised. As regards our long-term committed facilities, the average commitment is almost six years. We therefore continue to have very limited new financing risks. This quarter we produced a return on our equity of 35% and ended the quarter with an equity ratio of 28%. Net interest bearing debt was DKK 3.9 billion, up by 12% compared with last year. This is caused by repurchase of owned shares and by dividend payment. Net interest bearing debt to EBITDA was 2.1 and well within our range of 1.5 to 2.5. Return on invested capital after tax amounted to 13%, down by one percentage point compared with the same period last year.

Our cash flow... and this is turning onto the next page. Our cash flow from operations was minus 86 million this quarter. This decline was mainly due to an on account tax payment of 165 million in this quarter. We are still not satisfied with the development of our net working capital. Compared to end Q1 last year our inventories are still too high and initiatives have been put in place to reduce them. Likewise, we must become better at managing our trade payables, which should be maintained at a higher level. On a positive note, our trade receivables have improved relative to sales. We invested 171 million in property, plants (?) and equipment during the year, mainly in production equipment for the factories in Hungary and China and in our US headquarters, which we expect to complete during summer this year. The total investment made amounted to 8% of revenue. Free cash flows amounted to negative 250 million against positive 62 million last year.

And before I hand back to Lars, I've just been made aware that I may have made a mistake in explaining about our special items. The remaining special items of DKK 70 million, we expect half of that in Q2, not Q1 as I think I said, half of that in Q2 and the remainder in Q3 and four. And now back to you, Lars.

Lars Rasmussen

Thank you, Lene. I will end this presentation by... which means that you're going over to the next slides and the slides saying guidance for 2008/9 unchanged and so on. I will end this presentation by going through our guidance for 2008/9. For 2008/9 we still expect an organic sales growth of about seven to 8%. Changes in the exchange of, primarily, British pounds but also US dollars towards Danish kroner, means that the growth in Danish kroner has been revised to allow seven to 8% from previously eight to 9%. We remain confident in our growth expectations for Ostomy Care, Continence Care as well as our American Urology business. We also see growth returning to our European Urology business and we expect that the market situation in Germany will remain stabilised. Wound and Skincare will remain the main challenge during 2008/9 due to the execution of our Wound and Skincare strategy mentioned earlier. This is included in our guidance and reduced growth in the range of one to 2% in 2008/9 as mentioned previously. No effect from the UK healthcare reform has been included in the guidance and we expect news on this result very soon. We expect an EBIT margin of about 15 to 16% in local currencies or 14 to 15% in Danish kroner. The exchange rate effect on EBIT is expected to stay within the guided range given. So will the ( ) within Go (?) and Wound and Skincare. These are almost neutral to our guidance because the cost associated with the execution will be offset by the savings from the implementation. Our capex estimate for 2008/9 remains in the range of DKK 750 to 850 million and our effective (?) tax rate is expected to be around 28%. This concludes our presentation of our Q1 results.

Questions and Answers

Klaus Madsen, Handles Bank

Yes, hello, it's Klaus Madsen from Handles Bank in Copenhagen. My first question relates to your performance in Germany, and you give two organic growth figures in the report, excluding Germany on the European side, or on the organic growth for Europe, and you also give a sales figure excluding Ostomy... sorry, the German issue in Ostomy. If you sort of make the adjustments you get to, I guess, a picture which shows that Germany is troubling, probably within all business areas. And I was wondering if you could shed some more light on organic growth in Germany and basically across the business.

I think that first and foremost I'd like to say that we had the change in the German situation in general last year, so from this month and onwards we are sort of comparing to a like for like scenario in Germany. It is our homecare (?) business which was affected in Germany last year and thereby all of our business areas are of course affected because that is... they are all sold (?) by the... through the homecare set up. But I don't think that we would like to go into details on each of the business areas in Germany.

But if you look at your wholesale performance down there, are you then still satisfied with the trend you see in the various business areas?

Well, [laughs] as you can see from the first quarter, we of course do not have a very nice picture for Germany because we are comparing it to a high quarter last year. And if what you're asking me is if we are satisfied with that part of it, we are definitely not satisfied with it but we have... I think I can say that we have... we are looking at it in two ways. We have the homecare business and then we have sort of the base business of Coloplast and it is two different pictures that we're looking at, whether we're looking at one or the other one. And I would say for the... first of all, the result for the total business in Germany in the first quarter is actually as expected.

Okay. Do you see any forced (?) conversion happening among other homecare providers selling your products?

No, we... I think we explained when we had the capital market day that we... everybody are forming alliances with everybody in Germany but I think that we actually have a very sound network of alliance partners inside of homecare in Germany. But of course, as long as we are comparing to the very high activity level we had last year compared to this year, it doesn't look nice, but it is, as I said before, it's as expected. We don't... we've not satisfied but we... it is as we expected it and we are going against some, I would say, lighter (?).

Okay. Then on the distributor destocking that you mentioned, but it doesn't seem to sort of affect the business critically, where have you seen that in terms of geographic regions and what kind of impact is there in Q1, if it's worth mentioning?

It's not really, in a sense, worth mentioned because, as you can see, it hasn't impacted our growth. We do see some signs that there has been a bit of destocking and that has been across the board but it has not been to an extent that it has actually influenced our business.

And do you believe that you have seen whatever impact there could be from that kind of initiative?

That's very difficult to say. We may not have seen all of that. That really depends very much on the situation in the financial markets.

Then on the cost base, the rather low level we see on administrative costs in the quarter, is that a sustainable run rate for the year, basically, or is it particularly low in this quarter?

Well, I think if you look at it, if you compare it to last quarter then you... the drop is quite significant, and that's also because last quarter... and I remember actually when we had this conference call a year ago we said that a lot of things were starting in Q1 and therefore we had relatively high cost. I mean, this year we have gone into the year with a lot of initiatives to reduce costs so therefore the difference is significant but also skewed by two different ways of behaviour, if one can put it that way. But as to whether it's at a sustainable level now, actually we believe it is. We've done quite a lot. Quite a lot of initiatives were put in place and a lot of them were actually put in place last year and I think what we're seeing now is the effect of that, so we want to, you know, strive for making sure that we don't go back up.

Okay, so in terms of relative... in relative to sales terms we should see this level being rather steady? And would you say also that that goes for the distribution and R&D costs for the full year?

Well, I would say that we certainly expect, on the admin cost, that, if not steady, then at least we want to keep it below the 10%, and with regard to the distribution, then that's where we will see impact of our stage four (?) initiative that many of you have heard about and therefore we also believe that the drop we're seeing there should be sustainable.

Okay, thank you, and then on the penile implants business where I think you actually earlier pointed to some kind of impact of a weakening US market. However in the Q1 report you seemed quite satisfied with what you're seeing on the US Urology. Has there been some impact of delayed elective surgery in the US or is it really rather insignificant?

I would say that for the first quarter we got some pickup before Christmas so I think that we are still only affected of it to a minor degree, but we do see that people are cancelling operations and we also, from interviews, know that it is because people do not find it's an appropriate time, point in time, to stay away from their job to have an elective procedure made, but it is a limited effect that we see.

Okay. Then finally on Wound Care, you allude to the strong performance in Skincare to be only temporary for Q1. Is that correct and why did you see such a strong first quarter?

We have won a number of new contracts and when you start working on them you also fill in some of the stocks and that's the effect that we do see.

Okay, thank you very much.

Jakob Thrane, Standard and Poor's – London

Good afternoon. Thank you for taking my questions. This is Jakob Thrane from Standard and Poor's in London. Just regarding the... I just want to come back a little to the situation in Germany, although I know you probably don't want to talk too much about numbers, but you say that we should not see any impact going forward, meaning sort of we have... I guess, we can read into this back to where we were before all the turmoil started. Does that mean that the... sort of the... that the growth rate for Ostomy for the rest of the year's going to be more like the 9% you were actually saying when you were cleaning out the German situation, rather than the sort of... the 4% we're saying. Where do you actually see this and does that mean sort of we can see that the DKK 200 million *you said you lost last year is going to be... we're getting... going to see that coming back again? If you could add a little colour to that, thank you.*

What we mean by this sort of having a hard comparison quarter, in that sense (?), that really means that what happened in Germany last year, as Lars explained before, that happened in the first quarter and a bit of January, in January, that means, going forward now, we will be comparing on a like for like basis. And as to whether that will mean that we will end the year with a 9% growth in Ostomy Care, then I don't really want to answer that because, again, we're reiterating our growth guidance and we don't guide on these individual business areas. But what we mean by the comment is that we are, from now on, comparing apples with applies, so to speak.

Right, okay. Secondly, then I have another question regarding the R&D level, which obviously has, compared to last quarter, come significantly down...

Jakob, sorry, sorry, I didn't get the first part of your question. Could you please start again?

Regarding the research and development expenses that we have seen coming significantly down compared to the last quarter, or Q4 in last year, is some of this... is that a reflection of the improvements that you stated you were aiming at for Biatain and SenSura and is this sort of the level we are going to see going forward? Because it's a little lower than I had actually expected so I'm just trying to sort of gage where you want to place this, bearing in mind the innovation rate that you want to up.

We would actually like not to be too firm on a fixed ratio on R&D because I hope that we, earlier on, have explained that what we have done with our R&D cost is that we have made sure that we have a much bigger part of the R&D spending, so we have some fixed spending with people that are in-house in Coloplast and then we have quite a budget also for external R&D. And that means that you will see, in some quarter and also some years, where we are having a very different spin than what we had the quarter or the year before. And it's all to do with what the activity level is just at that point in time, and we think that's the right way to handle R&D going forward because you are not necessarily in need of the same spend quarter after quarter on your R&D bill, so that is why you see these swings now. It's just because we have a higher amount of our R&D spending which are variable (?).

And if I can just add to that, because, specifically for Q4 last year, as you may recall, both we had high activities, as Lars just explained, and that can vary, but in that particular quarter we also had a certain amount of money that we sort of moved from booking on the production course to R&D and which meant that that quarter was sort of hit by more activity and also the fact that we...

( ).

Yes.

Okay, thank you for that, and just... perhaps I'm coming across as slightly thick here, but could I just kindly ask you to repeat the restructuring cost, because I totally lost track?

Yes you can do that and I will repeat it also [laughs]. Restructuring costs, we have 5 million in Q1, and that's 5 million from restructuring Wound and Skincare we have already done. We expect, for the full year, that we will have restructuring costs of approximately 75 million, so that means we've got 70 left for the rest of the year. And of that 70 we expect that approximately half will fall in Q2 and the remainder in the final two quarters of the year. I don't know if that makes it any more clear.

Yeah, okay, so Q2 is roughly 35 and then 35 distributed in Q3 and Q4?

Yes.

Would that, Lene, mean that the... sort of the carry over, the 20 million from last year's layoff exercise, is that included in these numbers or...?

That's included. We have included both the carry over, as you call it, from last year.

Yeah, whatever, sorry.

We have included the Wound and Skincare and then we have included the additional layoffs we just did with our blue collars, so that includes everything.

Okay, then I think that adds to the picture. Okay, thank you very much for that.

Ingevorg Ole, Goldman Sachs – London

Hi there, it's Ingevorg at Goldman Sachs. One question on Wound Care first. You mentioned that you are targeting some costs to R&D and marketing as well as other initiatives and in general this is a last resort when looking at cost reductions. If you can just explain the rationale behind cutting in these two areas. Then, secondly, on the phasing (?) of using distributors in markets where you've previously been selling directly, how should this pan out in the next three quarters as... in order to have a negative one to 2% impact on the group who(?) then need to see a significant deterioration in the growth rate there? So if you could comment on the trajectory that you're expecting in that.

When it comes to marketing and R&D it's... we don't consider that to be last resort, in a way, because we actually do have a competitive product portfolio. We also do have a competitive product pipeline, but we have made a decision to cut a number of products in that pipeline, so, basically, we think... we actually think that we are in a very good point in time here. You know that we have just launched Biatain-Ibu, for example, so we have quite modern products in there also. We've just launched new Biatain also. So we don't think that our sort of current problems inside of Wound and Skincare have anything to do with our product offering to the market but we do think that we can do with fewer products in our product pipeline and we're just taking care not to overdo it. On the marketing side, it is for sure that we are going to focus on fewer markets and that's of course having an impact on the marketing spend. What that means for the distributors, it's very, very hard to say because it takes time to make these negotiations in a way where it's benefiting both Coloplast and the distributors, so we can't give you any hint on that right now but it just means that we will have a stronger footprint in the areas that we choose to focus on. I do think that actually things are working together and I do not think that is what you are alluding to, that we in any way are trying to sort of have very short-term gains and then sacrifice all the long-term benefits that we could enjoy in this business. We are simply just doing the things that we find are correct to do on the short-term and making sure that we have an open road for doing the future things also.

And on the phasing, would you be able to comment on that?

No I wouldn't like to comment too much on the phasing because it depends very much on where we are (?) on our total product portfolio because we need to have that completely sorted out before we have all of the negotiations with the distributors, and that is something that we are going to do in this year, as we have said before, but I don't want to get into details on quarters on that.

Okay, and in the cash flow, a question on the cash flow, and the working capital, which we keep coming back to, on the inventory side, you saw very high levels in the last year due to the high level of manufacturing. We were expecting this to start coming down at the beginning of this year. Are there other effects that we should think about and should we expect this to actually come down or will it stay at an elevated level? I guess also your comment about the payables and attempts at addressing that, if you could elaborate a little bit more about what you are planning to do to address the very high levels that we are seeing there.

We are definitely focusing on all of the elements, or the three key elements, of our working, and inventory, yes we do expect that they should start to go down, at least in a relative basis, during this year. We are working with various well defined initiatives to reduce them. With regard to the receivables from our customers, we are beginning to see some improvements there in that it is... the receivables are increasing at a slower rate than sales. I would say where we need to... where we haven't focused enough and need to focus more on are actually the payables where we should be able to get them to stay at a higher level. They're fluctuating too much, and that's another initiative that we have put in place, so all in all, I do expect to see lasting improvements on our working capital beginning to come through in this year.

Okay, thank you.

Niels Leth, SEB in Scolder

Good afternoon. Good afternoon, Niels Leth from SEB in Scolder. First question on the US catheter reimbursement change. Could you talk a little bit about to what extent you believe that US patients have started to make use of this change in reimbursement? Do you feel that momentum is now, you know, on full speed in terms of converging these patients to this new regime? That's my first question, and I have a second question which is regarding your financial costs for the first quarter. Included in financial costs you have about 35 million of currency hedging losses I suppose. Could you just explain that, given that the pound went down in the quarter? Thank you.

Let me start with the catheter business in the US. We did do three scenarios when we started the... before we went into this new reimbursement situation in the US and we made, I would say, a very, very optimistic, through the roof kind of scenario. We made a, I would say, an optimistic scenario and then we made a pessimistic scenario and we are actually trading at the optimistic scenario so you could say we are tracking through the expectations that we did have because we think it is very... it is a very, very fortunate situation that we're in, that we have had such a change of reimbursement. And that is of course also impacting the growth numbers that you are seeing for the US, so I think that I can maybe put it in a different way. We were market leaders in this specific segment of the catheters before. We were starting off before we saw this reimbursement change and we are market leaders still and we are also market leaders when the full conversion is over.

Could you give a flavour of how much is the contribution from this? I mean, you're reporting 8% organic growth in that division, and would you say is it two or 3% that comes from this reimbursement change?

I think you have followed us long enough to know that we are not really going into those details, but...

I have to try.

... it is a positive thing for us and we enjoy the way that that business is moving right now.

Thank you.

And then for the financial costs in the first quarter, Lene, maybe you would comment on that.

That's a net figure and it's a combination of income from currency hedging and then the negative is from exchange rate adjustment on the balance sheet items.

But given the fact that the pound has fallen by so much, should we expect that, in the coming quarter, we are going to have a substantial financial income from currency hedging?

If the pound stays where it is at this... or stays at the same level as when we ended the quarter then, clearly, the negative impact on the balance sheet will no longer be there and then we should see a net income, but that really depends on how the currencies move.

Okay, and then finally a completely different issue, the UK healthcare reform. As you have mentioned, the reform is about to be announced, or at least decided upon. Could you just talk a little bit more about, you know, how fast could we actually see the reform being disclosed and could you give any further flavour on the impact of that as to what you know today?

We know what you know because we tell about it. We believed that we would have a verdict, so shall I say, in January and we didn't get that so now we expect it to be February. We know from previous experience that normally it would be announced and then six months later take effect. We have concluded, so far, forward (?) of our fiscal years so, whatever happens, it's something that we are not really counting into this year as it is, but, you know, this is what we know and we can't say much more of it.

There are, basically, absolutely no news.

What you say, we're talking about a substantial negative impact to your business or is it negligible?

We know that from the last consultation papers that we also talked to you about that. The proposals they had in the last consultation were significantly milder than what they had in the original consultation papers. We have also said, and we really... as we expect it any time (?), we just want to uphold it until we know. We have said all the time that we don't want to comment on what it means to us, so I don't want to do that, and it's not in our guidance but, as Lars said, it'll probably be towards the end of the year that it will actually take effect and at least it looks like it will be significantly less than when we saw that first proposal.

Okay, thank you.

Yi-Dan Wang, Deutsche Bank – London

Thank you very much. I have a number of questions. The first one is on the US catheter reimbursement change. Lars, you'd indicated that you had a... sort of a pessimistic scenario and an optimistic one and that the developments there seem to be tracking along with the optimistic one. Can you give us some sense of what assumptions were behind your... you know, sort of your optimistic scenario? That would be great, and, secondly, for inventory sort of goals, Lene, are you able to give us some sense of where you would want your inventory to get down to and over what time frame that will require? That would be helpful, and the third question is on the Skincare business. Are you able to give us a sense of how much the, I suppose, one-time benefits that you saw this quarter was and whether you have made... whether you have considered whether this part to the business is still strategic to your group interest? And then, lastly, Lene, are you able to give us some sense of where your bulk purchasing initiatives are, relative to what you had planned out for that to be? At the beginning I think your analyst... your... one of your managers indicated that you were about halfway through, so if you could give a sense of where you expect to be at the end of this year and, you know, how much of a benefit that should provide, that would be great. Thank you.

Let me start out by the US catheter. I think, Yi-Dan, that in many ways you are asking the same question as Niels was also trying to ask and of course we can go back to what we told when we started the business, namely that we saw a kind of a conservative pickup back in time when we saw the reimbursement change on Ostomy where there was a big allowance on Ostomies. We see the same kind of conservative pickup here but it is exactly as we had predicted, and I think that's the story that we can settle right now. Things are progressing like we thought them to do when this came out but we don't want to give details on it. We don't want to get into the numbers with it. Most of the competitors that we are up against, we actually don't know what they're doing but we are quite visible there, so I think it is in everybody's interest that we are telling what we are telling here, now, and that is that we are progressing according to plan. I would also like to take the question regarding Skincare. Skincare, I think we have a good momentum in our Skincare business and we are winning a number of contracts there. The market for Skincare is growing but it's not a double digit growth so we will, over time... We are growing so that we are winning market shares and we can see that is also continuing but we are not getting... I can't give you sort of numbers on how many contracts that we have been winning and so on. But to your question if this is strategically important to

Coloplast, it is a vital part of the US organisation. This market is a US market. It is not a global market like many of the other markets that we are working with for the US and also for Canada, so, say, North America. It is a market which is important to us and that we would like to keep working on. Lene, I would like to ask you to take the other question.

Sure, thank you, Lars. I'll talk about, you know, inventories, to what timeframe and how much we can reduce them. I really would want to avoid giving a timeframe and tell you how much we will reduce because, you know, it's been told to me (?) that, you know, sometimes things take longer than you expect and sometimes they don't. I mean, we could see that with the administrative costs we talked about for a while that we were going to reduce them and we've worked hard on it and we're now seeing the impact, likewise with inventories; we're now working very hard on it. I can't tell how much they will come down and by when but we will improve on inventories and continue to work on it. With regard to our purchasing initiative that dates back a couple of years when we started our strategic purchasing group, as to whether they are delivering what they should deliver, they have delivered so far what they should deliver. And, I mean, as I mentioned to a few of you, or some of you, before, last year when we saw a lot of increase in raw materials generally in the world, then we actually managed to keep our prices at about the same level. And the effect of it, that's of course included in our guidance and it's included in our long-term targets and so we don't give a specific number as to how much we expect this to contribute with.

Okay, great. I have a couple of follow ups. I suppose on the inventory question, what I was trying to get, perhaps in a somewhat indirect way, was that, clearly, you're going to continue to manage down your inventory, so in terms of the impact on the growth margin then, should we... what sort of, you know, effects should we see on your growth margin as you continue to work that down? And then, secondly, in terms of your guidance, I was somewhat surprised that you lowered your reported sales growth guidance on the back of the weakening sterling but you didn't actually change your reported margin guidance. One would have assumed that if your, you know, report itself, growth came down but was affected by that, then you would also see an impact on your margin. If you could sort of share some thoughts on why we're seeing this discrepancy, that would be great.

First of all, on the gross margin, as I said in the presentation, then the fact that we're producing lower volumes means that we are using our production capacity a little bit less efficiently than normally, and yes, that does have an impact on gross margin. Exactly how much, it should have very little. It has some and you should expect that but I can't tell you exactly how much it would have. Then with regards to our guidance, yes we lowered the reported sales growth, and the way we do this is... I mean our guidance is actually... the way we determine our guidance, we look at it in fixed currency, as we have done over many years, and say, you know, how much can we do in the fixed currencies and what will our EBIT be in fixed currencies? Then we basically take sort of, very mathematically, when... and you can see that in the stock exchange announcement. We take the currencies a few days before we report and then we mathematically calculate, with our guidance in fixed currencies, how would that then turn out in Danish kroner, so it's not a subjective view; it's more of a mathematical calculation of it. And when we do that, then it actually came out that both our organic, or our growth and our EBIT measured in Danish kroner, were within the ranges that we have given, so there is no magic or anything in that number.

Okay, can I just clarify that the FX (?) rates that you've used to... used in your updated guidance is the spot rate on 30th January?

It is the rate that you see in the exchange, the company exchange, on page eight. There you have what is the spot rate on 30th January and then you have the average... oh, sorry, then you have the estimated average exchange rate. That's when we take the actual exchange rate that we incurred in the first quarter and then sort of put the spot rate of January 30th. The rest of the year then gives us the exchange rate, the estimated average exchange rate that you see on page eight.

Okay, so the guidance is based on the estimated average exchange rate?

Yes.

Okay. Now, I'm sorry to bang on like this, but I can see how you are going to get a negative impact on your margin from the weakening sterling, sort of an incremental negative impact on the weakening of the sterling relative to where you are at the end of the September quarter, and the Hungarian forint doesn't seem to have changed relative to the rate for last year, so I suppose I can't seem to reconcile the difference. Based on your guidance there isn't a difference but there seems to be a difference based on these rates.

Yeah, the Hungarian forint has changed. Actually, on page eight you can see the percentage changes.

Right. Sorry, the rate for last year, 07/08, was three and 08/09 is also three.

Yes, that should actually be 2.58 and if you look at the percentage number just below it you can see the change, a 14% change.

Right, right, okay. Sorry, in the presentation there weren't as many digits [overtalking] and also in the press release there weren't as many digits; it was just those three. Thank you, that's clarified things.

Closing Comments

Then we'd like to thank you all for listening in and also for your questions, so I think this concludes the session from our side, thank you. Have a nice evening.