

Coloplast
Fri, 6th November 2009
14:00 Hrs UK time
Chaired by Lars Rasmussen

Lars Rasmussen

Good afternoon and welcome to this full year 2008/09 conference call. I am Lars Rasmussen, CEO of Coloplast. With me today I have the CFO, Lene Skole, and Head of Investor Relations, Ian Christensen. We have one hour scheduled for this conference call, so let's turn to slide number 3.

We are happy again to report a satisfying earnings development. For 2008/09, EBIT has grown 40% and the corresponding underlying EBIT margin is 17%. Cost focus and efficiency gains remain the fundamental driver behind this development. We realised 6% organic sales growth and 4% reported growth, which was in line with our guidance. During Q4 we saw further evidence as to the stabilisation of the market conditions in Germany, which fuels the hope that we soon can leave the problems in Germany behind us. We realised a very strong free cash flow and our efforts to control and improve our working capital and the improvements in earnings are the main contributors behind this development. This leads us to propose a dividend per share of DKK 7.00, corresponding to a pay-out ratio of 34%. Furthermore, the situation on the capital markets has now significantly improved so, with this and the strong free cash flow in mind, the Board has decided to seek approval at the Annual General Meeting for a new share buy-back programme of up to DKK 1 billion in total for the financial years 2009/10 and 2010/11. Our interest in participating in M&A activities remains unchanged.

We can give the market the following guidance for 2009/10. We expect an organic growth rate of 6-7%, corresponding to 4-5% in Danish Krone. We expect a 17-18% EBIT margin in fixed currencies, which is 16-17% in Danish Krone. The depreciation of the British Pound to Danish Krone impacted significantly. Capex is expected to be between 5-600 million. Our long-term financial expectations remain unchanged on the back of an adjustment of the expected market growth from about 6% to now about 5%. I feel the guidance we now provide to the market reflects a Coloplast which is well-positioned to achieve the above market growth from a superior positioning in the markets we serve. It also underlines that we are well on track with the various cost improvement programmes that were initiated about a year ago. And, finally, the share buy-back programme proposed underlines our confidence in our free cash flow going forward.

Let's move to the next slide, which is slide number 4. Revenues were up by 4% to DKK 8.8 billion. Currency impacts reduced growth by two percentage points and the organic growth was therefore 6%. This is in line with the market growth for 2008/09. Excluding Germany, organic growth was actually 8%. Within Ostomy Care we saw an organic sales growth of 4% to around DKK 3.6 billion, still impacted by the lower than expected sales in Germany. Excluding the German market, organic growth was 7%. The biggest growth driver in this business segment is still the SenSura product line. Coloplast remains market leader in the markets here, with a market share of between 35-40%. The

global Ostomy market is estimated to be around DKK 10 billion, with a market growth going forward of around 4%, which is slightly lower than previously estimated. In Urology and Continence Care sales were DKK 3.7 billion. This equals an organic growth of 9% and a reported growth of 7%. Growth was driven by intermittent catheters, especially SpeediCath and Selfcath. The sales also remained satisfying in the US and European urology business.

The global continence market is estimated to around DKK 10 billion, with a growth rate of 5-7%. This is a slight change to previous estimates, impacted primarily by the definition changes. Coloplast is still the global market leader, with a market share of around 30-35%. In the part of the urology market where Coloplast is present, we estimate the market to be around DKK 10 billion and our market share remains unchanged at 5-10%. The market growth is estimated to be 7-9%, impacted by the postponement of surgeries. Our Wound and Skin Care businesses grew 3%, both organically and in Danish Krone, and the year ended at DKK 1.5 billion. We continue to face price pressure in the main European markets and challenging market conditions within the hydrocolloid bandages segment and we feel the impact from the implementation of the Wound and Skin Care restructuring activities. The estimated market growth remains unchanged at 5-7% in a market of DKK 14 billion where Coloplast is present. We still hold a market share of around 5-10%. In Europe, sales ended at DKK 6.7 billion and the organic growth was 4%. Sales were affected by the decline in sales of Ostomy Care products to the German market. Excluding the German market, growth was 7%. Growth in Continence Care was satisfying, whereas growth in the Wound Care business remains under pressure from the tough competition, previously mentioned. Organic revenue in the Americas rose by 12% to DKK 1.4 billion, with a satisfying growth in all business segments. Revenue in the rest of the world improved by 8% organically, to almost DKK 700 million. Growth was impacted by a lower number of tenders than usual and the Wound and Skin Care project implementation.

With this sales overview I will hand you over to Lene – and please turn to the next slide, which is slide number 5.

Lene Skole

Thank you very much, Lars. Gross profit amounted to DKK 5.1 billion, and that is equal to a gross margin of 58%. This is down one percentage point from last year. Excluding the impact of currencies, the gross margin is at the same level as it was last year. We continue to see significant improvement in the production economy, resulting from the relocation of production to Hungary and China. This improvement, however, was more than offset by our production running below full capacity due to the lower than expected sales. Furthermore, production cost for SenSura and Biatain film dressings continue to be higher than expected. The transfer of production to Hungary of these products groups has now started and we expect production costs to normalise when the transfer has been completed during 2010. Finally, the gross margin has been impacted by price pressure in certain markets. I am sure you have noticed that the fourth quarter gross margin was low, at 56.5%. This is due to write-offs from product pruning within Wound Care and Continence Care, as well as simplification of the packaging material portfolio. In total, these two items reduced gross margin by more than one percentage point. In addition to this, utilisation of production capacity continued to be lower than last year, resulting in a reduction of inventories of close to DKK 175 million – and that happened in Q4. The

lower capacity utilisation negatively impacted the Q4 gross margin by more than one percentage point.

We are very satisfied that we continue to see significant improvement of the SG&A to sales ratio. The distribution to sales ratio ended at around 30% of revenues, which is slightly better than last year. This means that we are beginning to see the effects of our sales force efficiency programme. The improvements, however, have been countered by currency effects, as well as redundancy costs of almost DKK 30 million during the year. Our admin to sales ratio continues to decline and we realised 7% for the full year. We still see improvements from a continued focus on savings, efficiencies and cost containment throughout the whole organisation. Finally, the R&D to sales ended the year at 4%. The result of all this is a reported EBIT margin of 16% and an underlying margin of 17%. Net interest-bearing debt to EBITDA is now 1.2, which is down from 2.2 last year. This change stems from the combination of high cash generation and the cancellation of the remaining share buy-back programme. Our target range of 1.5-2.5 is maintained, as we still believe this reflects a reasonable range in the longer run but we will temporarily be below the range. Our capital reserves of DKK 4 billion will provide us with flexibility to pursue any suitable acquisition. In addition, we feel the improvement in the capital market is lasting and that new funding will be available, should we require it. This has led us to propose a share buy-back programme of up to DKK 1 billion.

The working capital to sales ratio continues to improve and is now at 24% of revenue, compared to 31% at the end of the same period last year. This shows that our efforts to improve working capital are working. As usual, we have seen an increase in accounts payable at year-end, while I am pleased to see that the underlying improvement this quarter came from a reduction of stock levels. Capex amounted to DKK 571 million, and this corresponds to a capex to sales ratio of 6%. Capex was primarily spent in equipment investments for the factories in Hungary and China and also in our US headquarters. Return on invested capital after tax was 15% for the year and 18% in Q4, and is a result of the combination of increasing profits, lower capex and improving balance sheet items. Finally, the year's free cash flow was DKK 1.4 billion, compared to 650 million last year. This significant improvement comes mainly from the stronger earnings freeing up cash net working capital and a very stringent capex control. All in all, I am quite proud of the numbers we present today. We are very satisfied that our organisation has been able to show so many improvements in so many key figures within just one year.

Now let's turn to slide number 6, and that is where we talk about the present year. For 2009/10 we expect a growth of 6-7% organically and 4-5% in Danish Krone. The growth guidance is based on the continuation of the trends we currently see in the market. We have included the negative impact from the implementation of healthcare reforms in the UK, as well as the estimated price cut on certain Wound Care categories in France. We also believe that the market environment in Germany has stabilised, and this assumption is included in the guidance. I think it is worth noting that the estimated market growth is 5%, so Coloplast remains committed to grow above market growth. We continue to build on the profitability improvements we have seen in 2008/09 and expect the EBIT margin for the fiscal year 2009/10 to be between 17-18% in fixed currencies. This is up from the 16% we have just reported for 2008/09. With the current exchange rate, the guidance in Danish Krone would be 16-17%. The guidance includes around DKK 60 million in special items related to the relocation of production facilities. We are satisfied that the initiatives we have put in place now result in higher estimated profitability. We expect our

capex for 2009/10 to be between DKK 500-600 million, and this reflects the lower requirements for investment in new machines at the same time as we continue to optimise our investment programmes. Finally, our effective tax rate is expected to be around 27%.

This concludes our presentation of our results for the full year 2008/09. Thank you very much and, operator, we are now ready to take questions.

Questions and Answers

Klaus Madsen – Handelsbanken

My first question relates to your guidance into 2010. Obviously you exit the year at a very impressive margin level of close to 20% if you make all the adjustments. Why would you only see 16-17% in 2009/10? Obviously I know Q4 is seasonally strong, but it seems to be a target that you already are sort of comfortably ahead of. So that is my first question.

Then I would like to have you add some flavour on the gross margin development, whether the accelerated relocation or at least relocation going on now will have any dilutive effect on the underlying gross margin we see in Q4 and on the sales and marketing expense relative to sales. Should we see an improving trend there as your sales force initiatives are progressing?

Lene Skole

Right, Klaus, let me see if I got all of them right here. Your first question with regard to our guidance relative to what we are seeing in Q4. It is right that we have seen 18% in Q4 – and we are very pleased to see that. Our guidance, the way we look at it we say okay the 17-18% – I know you mentioned the 16-17%, but the 17-18% is how we have fixed the guidance, which we do in the average currencies that we saw for the year that we just ended, so in effect the EBIT guidance is an uplift from the 16% that you have seen for this year to the 17-18% that we are guiding, so there is actually at least 1.5% uplift on the margin.

With regard to the gross margin, I believe your question was as to whether the continued relocation during the fiscal year we are now in, whether that would have a dilutive effect on the gross margin – did I understand that correct, Klaus?

Klaus Madsen – Handelsbanken

That is correct, yes.

Lene Skole

Right. We don't expect that it will, no. We don't expect so. In terms of sales and marketing relative to sales, then you have already in the year we have just ended seen a slight dip of about one percentage point relative to sales. And, yes, we would certainly hope to see that the efforts we are having on our sale force efficiency programme will mean that there is some improvement we can get from that.

Having said all that, then I think it is important to mention that we also have some one-offs and restructuring costs, as I said, of about 60 million for the full year 2009/10.

Klaus Madsen – Handelsbanken

Okay. Thank you.

Then on your product launch frequency where you hit a record level in 2008/09, can we expect that to continue going forward? And could you also comment on your R&D efficiency now that R&D is actually trending down at the same time as you seem to keep a strong momentum on launches?

Lars Rasmussen

First of all, we are very, very pleased with the performance of our R&D organisation because it is actually quite a high number of new products that we have launched. I think that the trick with innovation is to get the right things launched and some times you come out with smaller products, which is what we have been doing this year because we are sort of following up on, for example, the big SenSura programme, so we follow-up with minor launches there and some times you come out with some bigger launches. And I think therefore it is hard for us to guide and, just to make sure that we do this correctly, we are guiding only on the number of new products coming out. But the reason why we mentioned it this time is that we did a couple of years ago reorganise our R&D functions in order to be faster and more efficient in that part of the organisation. I definitely feel that we have been that and some of the products, actually several of the products that we are launching this year, have only had a development time of between 6-9 months. That is something we have been able to do in the past, but not several of them every year, so I think the efficiency is good but I think it is hard to give a number by which you can judge us every year on it.

Klaus Madsen – Handelsbanken

Okay. Thank you.

Could you maybe just give us the innovation rate in this quarter?

Lars Rasmussen

It is around 15-17%.

Klaus Madsen – Handelsbanken

Okay. Thank you.

Lars Rasmussen

Okay.

Niels Leth – SEB Enkilda, Copenhagen

First question is regarding the number of employees – you are reporting an average number of employees for the year you just ended of 7,349. On average how much would say that the number of employees will be down in the coming year?

Lars Rasmussen

I think that what we could say about this is that this is a number where it is really hard to use an average number for much. And right now we are pretty low on the number of employees because, as you know, we have just said goodbye to 143 employees in Denmark and, if you are following the press around the globe, we have also said goodbye to a number of employees in the US. And therefore at this point in time we are something like at least 500 positions below what we were at the same point in time – well, more or less the same point in time last year. So in this year we have managed to get a much higher turnover per employer than what we had last year.

Niels Leth – SEB Enkilda, Copenhagen

But could you then comment on the number of employees by year-end because here it was at 7,130?

Lars Rasmussen

Well, actually currently we are just around 7,000.

Niels Leth – SEB Enkilda, Copenhagen

And would that be the average level throughout the coming year?

Lars Rasmussen

That is very hard for me to say, Niels, because now we start to do the final part of the move from Denmark to Hungary and, you know, some times you have to employ people well in advance when you are transferring production, so you have double counting when that is going on, so it is hard for me to say. But maybe I should just add to it that our internal guidelines right now really is that it is very, very hard to employ people unless they are sales force or direct sales people or if they are blue collar workers then you can employ, but for white collars you have to answer a lot of difficult questions from both Lene and myself. So we are quite hard on that number and very, very keen on making sure that we are not seeing too high a growth on this.

Niels Leth – SEB Enkilda, Copenhagen

Okay.

And then a question on your relocation costs – could you elaborate on the level of relocation costs for the fiscal '10 year?

Lene Skole

Niels, I am afraid we cannot do that. We don't normally do it or haven't done it so far and we cannot really comment on exactly how much the actual relocation costs. What you do know is that the restructuring cost of the around 60 million that we have for the year related to it because that is related to when we actually have to do some closure of sites. So I cannot give you an exact number, but it is obviously included in our guidance.

Niels Leth – SEB Enkilda, Copenhagen

Okay.

And, finally, a question then on your working capital to sales – is the level you end the fiscal '09 year, is that sustainable going forward?

Lene Skole

That is a very, very good question, Niels. It is. We have worked very, very hard on that and I know I have been through many, many quarters where I have said we have worked on it and where we haven't actually seen anything yet, any visible signs of success in that area. It is beginning to show now and, yes, I would say that what we are seeing now is a sustainable level.

Niels Leth – SEB Enkilda, Copenhagen

Okay. Thank you.

Kristian Marthedal – Nordea Market, Copenhagen

A question on market growth – in your latest quarterly report you claimed that overall market growth was estimated at around 6% and now you are expecting market growth on an overall level of roughly 5%. Firstly, what has made you change your perception of market growth? And, secondly, what makes you confident that you should be able to grow more than market?

Then a question on administration costs, which amounted to 7% of revenues in the latest fiscal year – significantly down compared to previous years. Should we expect a level going forward of around 7%, or what is your comment on that? Thank you.

Lars Rasmussen

The market growth lowering that we have suggested here is more or less solely attached to the emerging economies and we have some economies where we have quite a stable system. That is where you have a healthcare system in place and you have reimbursement and fixed prices and so on and so forth. But then you also have some – actually a lot of countries – where you are not having a stable healthcare system and where reimbursement is not in place and so on. And that is what we call emerging markets – those are the markets where you are more working with tenders and there we see that the tenders are only issued when there is, so to say, money in bank. So we don't see the same kind of growth rates in emerging markets as we saw last year and that is the overall reason why we have lowered the growth for the markets. Then we have also quite often been speaking about the situation that we have in the US where we have the elective surgeries, and there

have been postponements – you know, this postponement of surgeries is also due to the financial crisis. So people are just postponing these and that is impacting the market growth a little, as we see. So that is basically the main reasons for it.

Kristian Marthedal – Nordea Market, Copenhagen

Okay.

And what makes you confident that you are going to outgrow the market?

Lars Rasmussen

Well, I am of course very well aware that probably all competitors in the market have an ambition to outgrow the market, but the situation is that we are by far launching the biggest number of new products. We do know our own pipeline of new products going forward and we think it is very good, so that part of it is we think in place. And this market is to a certain extent also technology driven, so I think that that is one major thing to have in place. The other thing is that we have significantly invested in market intelligence and also in training up our sales force of how to go to and approach the most important customers in our market. And that is of course an investment that we expect to see pay off, both in terms of higher sales per sales rep but also in terms of us having higher growth.

Kristian Marthedal – Nordea Market, Copenhagen

Okay. Thank you.

And then the question on admin costs, I think that goes for Lene.

Lene Skole

Okay, Kristian. Yes, the admin costs I think I have on previous occasions said that I would really like to see admin costs say below 9%. We have seen this year it is 7, and if you look at the fourth quarter in isolation you are actually down to 5. In the fourth quarter we had some special reasons for it being as low as it was. We had some write-backs off the previous provisions we have had and we also had a very low expense level. So as I would say as well for the year, the 7%, I would expect that we could keep it there, but what you have seen in the fourth quarter, the 5%, I am not sure that is sustainable. So I would sort of say that the 7, yes that is, but not the 5 that you saw in Q4.

Kristian Marthedal – Nordea Market, Copenhagen

Okay.

And then just a follow-up question in terms of your European sales, it seems that organic growth during Q4 picked up, relative to Q3 – is that a consequence of the sequential improvement in Germany, or what is your flavour on that?

Lars Rasmussen

I think we should be very careful to guide or to comment too much on quarters because you don't need much swing before you see it but of course, as we have been saying consistently over the last couple of quarters, we see a stabilisation of Germany. To that end of course, that is also showing in the numbers.

Kristian Marthedal – Nordea Market, Copenhagen

Okay. Thank you.

Ed Ridley-Day – Barclays Capital

A number of my questions have been answered, but if I could follow up just on the growth margin. Just in terms of the inventory charges that you have taken, are we going to see more of those maybe next year or is that really a one-off?

And the second question I had was really regarding your extremely encouraging growth in the US, obviously driven by the catheter demand. I don't want to put too many words in your mouth, but would it be worth saying that your catheter sales in the US may have as much as doubled year-on-year, or are we talking more about sort of a 30/40% growth rate? If you could just give us a little bit more colour on that I would be very grateful. Thanks.

Lene Skole

Okay, Ed, I can start with the growth margin. Last year we produced more or less at full capacity and we built up stock levels and that had a positive impact on the growth margin and this year, as you can see, we have actually really now been able to start reducing our stock levels. We have also seen underlying improvements in the actual production costs. And the underlying improvements in the production costs will mean that the products that we put on stock and the cost that we associate with that will become slightly less. So, all in all, we expect that we will be able to do a little bit more on the working capital on the stock reduction levels and to the extent that we are able to do that, then there could be a bit more negative influence in the year that we are in. But I am also trying to say that given that the overall production economy improves, then the level of cost that we add to our stocks gradually reduce. So I think the net of what I am saying is that, yes, there could be a small impact if we reduce stocks in the year we are in now, but I don't think it will be quite as significant as what you have this year.

Ed Ridley-Day – Barclays Capital

That is very clear. And will it again be – you would sort of take it towards the end of the year or could we see it sort of earlier in the year?

Lene Skole

That I cannot answer – not because I don't want to, but because we are working on it continuously and I think it is probably better to explain why I believe that most of this came towards the end of this year because the whole year everyone in our organisation has been working – you know, supply chain has been working with corporate procurement – and so very hard on making sure that they could find the right way to reduce stock levels.

So it has been almost like sort of the ketchup bottle that they have tried and tried and then all of a sudden finally in Q4 they succeeded and we could see the results. And I think that what we will be seeing going forward is a little bit more, but it won't be again so that you will only see it in Q4. That will be a gradual movement throughout the year that we are in now.

Lars Rasmussen

When it comes to growth in the US and your specific question on catheters, I am not really comfortable going in and commenting on the exact growth rates on this specific segment in the US. I think maybe a better way to answer your question really is that we have a strong sales organisation in the US now. It is stronger at this point in time than it was at the same point in time a year ago, and it was actually stronger a year ago than it was two years ago. So we are really in a build up phase in the US and we are seeing improvements on all of our business areas in the US and we are seeing double digit growth rates on all of our business areas in the US. So we are absolutely very, very encouraged about what we are seeing in the US, and it is not only hinting on the performance of the intermittent catheter business.

Ed Ridley-Day – Barclays Capital

Okay. No, I understand. Thanks

Hans Bostrom – Goldman Sachs

Three questions actually, very simple ones. First of all, what should we assume you average borrowing costs to be?

Secondly, your R&D costs – the percentage of revenue has come down 50 basis points – 4.5% is that a reasonable estimate for the next couple of years?

And, thirdly, will you have the opportunity to revisit the size of your share buy-back programme that you have indicated will be a billion over two years, because without any acquisitions you will still be below the target range for gearing if you only do a billion over two years.

Thank you very much.

Lars Rasmussen

Let me start out with the R&D question. The 4.5% I would like to remind you of what I said probably a year ago, namely that we have organised our R&D in a little bit of a different way than what is normally organised in a company like ours because we have in-house R&D and then we have external R&D because there is a fantastic environment outside of Coloplast also for technology innovation. So therefore when we reorganised our company a couple of years ago, we sort of freed up some capital that we could use and spend when we saw good ideas that we wanted to get onboard outside of the company. Therefore, you will see that the R&D costs will sort of be different from one year to another year, and we will have years where we are above the 4.5 that we are coming with

this year. We will also have years probably where we are below, but if you are looking at the 4-5% range, it is probably not completely in the woods.

Lene Skole

Hans, I will continue with our average borrowing costs. They are about approximately 5%, including the effects of swaps that we have in place.

Then with regard to the share buy-back, you are absolutely right that if you start sort of doing the math then 1 billion in the coming year will not get us back into the range that we have. Provided obviously that the AGM approves our share buy-back programme, then we will have the opportunity to revisit that. We do see this as a start. It may be a cautious start because, as you know, we have been holding back due to what we have seen in the capital markets. We believe they are fine now, but we want to sort of have a fairly cautious start on that.

Hans Bostrom – Goldman Sachs

Another small question is your tax rate – what should we assume that to be for the next couple of years? The same level?

Lene Skole

You should assume that to be around 27%.

Hans Bostrom – Goldman Sachs

Okay. Thank you.

Klaus Madsen – Handelsbanken

Hello again. Just a follow-up on your manufacturing setup. Obviously you have been running below your initially planned capacity this year, does that mean that there is basically a lot of idle capacity in your system and you can easily grow, let's say, 6/8% without any expansion of your system?

Lars Rasmussen

Well, we have actually guided for what we think that we need to use of capex for the coming year also, and that is to a very high degree reflecting the need that we have for extra capacity because most of the capex is actually for increasing capacity within manufacturing. To that end you can say we need to buy machinery to be able to expand, but we can stay within the building mass that we have right now, so we don't have any building of new factories in the coming year. I think that we have what you could say is a 75% utilisation in Hungary of the buildings and we have approximately 50% utilisation of the buildings we have in China, so we can still grow within the current sort of square metres that we do have, but we still need the new equipment.

Klaus Madsen – Handelsbanken

Okay. Thank you.

Then on the US sales force reorganisation that you implemented a couple of quarters ago, you indicate some I guess very positive first impressions from that, but I guess it is also fair to assume that there will be a certain transition period while accounts are reshuffled and maybe reprioritised. When do you expect the new organisation to be running smoothly and basically operating at full speed?

Lars Rasmussen

I think this takes an answer which is a little bit elaborate because, first of all, our sales force was reshuffled, as we explained, and I think that that reshuffling is sort of behind us because people are now used to their new territories. But what we did at the same time was that we gave each and every member of the sales team their new call plans, which also means that they need to be in front of customers – what we call “A, B and C customers” – we explained that also previously, so the A customers are the most important ones and so and so forth. And you know we are visiting much more of the customers in the A segment now than what we did in the past and those customers are not customers that start to buy just because we visit them once. They are professional people. They would like to know who they are dealing with and once their contracts are coming up for negotiations, then if they know you and they understand you and you sort of are dealing on a sympathetic level, then you also have a good chance to win one of those contracts. So therefore to obtain business with the more professional buyers is something that takes a longer time. So I think that the current level that we see of activities in the US is not likely to fall further because of the change that we did to the sales organisation, but the pick-up is not something which is just coming around the corner. It is something that takes time to work in there.

Klaus Madsen – Handelsbanken

And could you indicate what kind of latency you are assuming there before this is actually accelerating growth, rather than maintaining growth?

Lars Rasmussen

That is very hard to say, Klaus. I think the most important signal is that we don't believe that we will see that that starts to decline due to what we withdrew, because it is already in our guidance what we believe that we will come out with next year in the sales.

Klaus Madsen – Handelsbanken

Then on your general sales force initiatives, the programme you have implemented now in the US is that followed up similar exercises in other key regions?

Lars Rasmussen

It is actually implemented in 80% of the company now.

Klaus Madsen – Handelsbanken

Okay. Thank you very much.

Lars Rasmussen

You are welcome.

Yi-Dan Wang – Deutsche Bank

Thank you very much. Apologies if this question has been answered during the call – I joined a bit later. Would you be able to give us a sense of how in each of your businesses you would expect to perform relative to the market next year and also comment on the sources of the margin improvement, so roughly how much we should expect to come from your manufacturing facilities versus SG&A, R&D, etcetera?

And then just a quick question on Wound Care – can you give us a update of where you are there in terms of reorganising that business and when we could start to see that business get back to market growth rates or perhaps even exceeding market growth rates? On that matter, in the established markets if you could give us a sense of how that business is doing versus market that would be great. Thank you.

Lars Rasmussen

To start with your last question, the update on the Wound Care businesses, what we say is we expect to finish up the current turnaround that we are doing on Wound Care in the fiscal year that we have just started. And therefore we of course also expect to see lower growth rates in this business area, as we have seen in the year that we have just had. And I guess that is the only expectations that we do have when we are talking about the business area side on what kind of growth we expect there. Having said that, we think that we have a good plan in place for Wound Care. We believe that what we have been telling you so far, that we are going to take care of fewer markets and bigger markets and that we are going for a higher footprint in each of the markets that we are after is the plan that we will implement. And we are almost done with what we had to do on the cost cutting side of the Wound Care business, and the big task ahead of us now is to have the right approach in our go-to-market activities in each of the markets within Wound Care.

Lene Skole

Maybe I should just comment on where we expect to see the margin improvement?

Lars Rasmussen

Yes.

Lene Skole

We expect to the largest part of the margin improvement to come from the gross margin. With regards to the distribution to sales, a slight improvement; admin to sales, probably

staying around where it is; and R&D around the 4-5%. So the most significant contributor to the margin improvement will be the gross margin.

Yi-Dan Wang – Deutsche Bank

Okay. Thank you.

And, Lars, would you be able to comment on where you are in Wound Care in the large markets that I presume you are reasonably strong in? Whether you are delivering at market rates or below or above? If you could give some indication there, and also the growth of Ostomy and Urology Continence Care relative to market next year that would be great. Thank you.

Lars Rasmussen

I am a very polite person; it is not that easy to just say no, but we don't really guide on growth rates in the single markets if we can avoid it because we feel that we are giving very much away with this – only Coloplast and not the other guys in the market – so I would rather not.

Yi-Dan Wang – Deutsche Bank

Or you could wrap them, you know, the five or six big markets. I am not expecting you to give it to me by country.

Lars Rasmussen

I could, but I am not really interested in doing it.

Yi-Dan Wang – Deutsche Bank

Okay. Alright.

And Urology, Continence Care, Ostomy for next year relative to market?

Lars Rasmussen

No, not really. Well, we know it but we are not really disclosing it.

Yi-Dan Wang – Deutsche Bank

Okay. Alright. Thank you.

Martin Parkhoi – Danske Bank

I just wanted to come back to a couple of things. Firstly, with the 5% market growth you have changed it to, you blame the emerging markets but if you are looking at a longer-term perspective because I guess this is long-term guidance, don't you think that the growth could return again when emerging markets again pick up?

And then, secondly, with respect to Germany which has been a real problem for you this year, if we look at Germany next year how should we expect growth in this market? Should it be on par with your entire business now or will it still be a drag-on business or maybe even the other way around?

Then, thirdly, the share buy-back programme of 1 billion, can you tell us how the majority owner will act on this?

And then, finally, I am just curious on the R&D rate for next year because you guide 4-5%. I guess that is a bigger difference you know – you must know if you are using 4 or 5%. That is a difference of your R&D budget of 25%.

Lars Rasmussen

If we start out with the market growth, it is correct what you are saying that the markets where we are now seeing a weak development, that if you are looking at them in a long term perspective you will see a stronger development. You are absolutely right, but the way that we update the market is that we go in and we are looking at how we see that they are developing and what we see in the near future. It is hard for us to go out and predict what will happen in five or ten years time. You were at our Capital Market Day; you saw just for China what kind of explosions you will see in (People Plus 50), and they are really driving our business. But how that will play out when it comes to the market value, we don't want to come up with something on that until we are more firm on it. But you are right, for a longer-term you cannot imagine it will stay down there.

Germany is basically flat in our guidance, so there is not that much to say on that. And to comment on the question on R&D, I am not sure that it is correct what you are saying that we just know exactly what we are going to spend on R&D for the coming year because, as I explained before, we allocate a certain amount of money for R&D and quite a large portion of those funds are not already fixed. They are actually project money which we spend when we go out and buy external technology to help us and therefore we don't know where the year will end, but we allocate between 4-5% to this area. And it might be that we are spending all of the 5% then, and that is basically just great if we can find ways to do that.

Lene Skole

If I can perhaps then comment on the share buy-back programme and the potential participation by the owner or the majority share owner – they have both announced certain levels that they want to retain of the company and they are also in the process of finalising the estate of Mrs Louis-Hansen, which is not completely finalised yet. But as we can see it, they would not necessarily need to take part in this repurchase programme because they would still, even without taking part, be within the limits they have said. They have not said to us specifically whether they intend to take part or not, but as I can see it and do the math, they don't have to take part.

Martin Parkhoi – Danske Bank

Thank you very much.

Closing Comments

I would like to thank you all for participating in the conference call and for all of your questions and I wish you a very nice weekend. Thank you very much.